

Audit Committee

Thursday 24 November 2022

11.30 am Luttrell Room - County Hall,
Taunton



To: The Members of the Audit Committee

Cllr D Ruddle (Chair), Cllr A Sully (Vice-Chair), Cllr Cllr L Baker, Cllr S Carswell, Cllr M Caswell, Cllr N Cavill, Cllr M Chilcott, Cllr P Clayton, Cllr H Davies, Cllr H Farbahi, Cllr T Kerley, Cllr M Lewis, Cllr J Snell and Whitten

All Somerset County Council Members are invited to attend meetings of the Cabinet and Scrutiny Committees.

Issued By Scott Wooldridge, Strategic Manager - Governance and Risk and Monitoring Officer - 16 November 2022

For further information about the meeting, please contact Pam Pursley at ppursley@somerset.gov.uk or 01823 357628 or Stephanie Gold at stephanie.gold@somerset.gov.uk or 01823 357628

Guidance about procedures at the meeting follows the printed agenda.

This meeting will be open to the public and press, subject to the passing of any resolution under Regulation 4 of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012.

This agenda and the attached reports and background papers are available on request prior to the meeting in large print, Braille, audio tape & disc and can be translated into different languages. They can also be accessed via the council's website on www.somerset.gov.uk/agendasandpapers



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AGENDA

Item Audit Committee - 11.30 am Thursday 24 November 2022

*** Public Guidance notes contained in agenda annexe ***

1 Apologies for absence

To receive members' apologies

2 Declarations of Interest

Details of all Members' interests in District, Town and Parish Councils can be viewed on the Council Website at [County Councillors membership of Town, City, Parish or District Councils](#) and this will be displayed in the meeting room (Where relevant).

The Statutory Register of Member's Interests can be inspected via request to the Democratic Service Team.

3 Minutes from the meeting held on 22nd September 2022 (Pages 9 - 14)

To approve the minutes of the previous meeting held on 22nd September 2022.

4 Public Question Time

The Chair will allow members of the public to present a petition on any matter within the Committee's remit. Questions or statements about any matter on the agenda for this meeting will be taken at the time when each matter is considered.

5 Statement of Accounts (Pages 15 - 278)

To approve both

- County Councils & Pension Fund accounts.

Please note: Members of the audit committee are required to attend a Statement of Accounts training session at 9.30am on 24th November in the Luttrell room, prior to committee.

6 External Audit Update (Pages 279 - 416)

The receive the following external audit reports

- Somerset County Council Audit Findings Report 21/22

Item Audit Committee - 11.30 am Thursday 24 November 2022

- Somerset County Council Auditors Annual Report 21/22
- Informing the Audit Risk Assessment for Somerset Pension Fund 21/22
- Informing the Audit Risk Assessment for Somerset County Council 21/22

7 **Internal Audit Update** (Pages 417 - 436)

The regular progress report from SWAP on the completion of the current Internal Audit Plan, highlighting any high risks that have arisen from their work

8 **Transport Budget Governance Verbal Update** (Pages 437 - 444)

To receive verbal updates on Transport Governance overspend as identified in the Transport Governance report 21/22 - requested by the Chair.

9 **Strategic Risk Update** (Pages 445 - 458)

The regular update on progress in mitigating the highest scoring risks

10 **Local Government Reorganisation Strategic Programme Risk update** (Pages 459 - 472)

To review the LGR programme risks

11 **Committee Future Work Programme** (Pages 473 - 474)

To consider and comment on the committee future work programme.

12 **Any other urgent items of business**

The Chair to raise any urgent items of business.

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Guidance notes for the meeting

1. Inspection of Papers

Any person wishing to inspect Minutes, reports, or the background papers for any item on the Agenda should contact the Committee Administrator for the meeting via Telephone (01823) 359045 or 357628; or Email: democraticservices@somerset.gov.uk

They can also be found here: www.somerset.gov.uk/agendasandpapers

2. Members' Code of Conduct requirements

When considering the declaration of interests and their actions as a councillor, Members are reminded of the requirements of the Members' Code of Conduct and the underpinning Principles of Public Life: Honesty; Integrity; Selflessness; Objectivity; Accountability; Openness; Leadership. The Code of Conduct can be viewed at:

<http://www.somerset.gov.uk/organisation/key-documents/the-councils-constitution/>

3. Minutes of the Meeting

Details of the issues discussed and recommendations made at the meeting will be set out in the Minutes, which the Committee will be asked to approve as a correct record at its next meeting.

4. Public Question Time

If you wish to speak, please tell, the Committee's Administrator, by 5.00pm on the Friday before the meeting. This is the deadline to register to speak and requests to speak received after this time will be at the Chair of the Committee's discretion.

At the Chair of the Committee's invitation you may ask questions and/or make statements or comments about any matter on the Committee's agenda – providing you have given the required notice. You may also present a petition on any matter within the Committee's remit.

The length of public question time will be no more than 30 minutes in total.

A slot for Public Question Time is set aside near the beginning of the meeting, after the minutes of the previous meeting have been signed. However, questions or statements about any matter on the Agenda for this meeting may be taken at the time when each matter is considered.

You must direct your questions and comments through the Chair. You may not take direct part in the debate. The Chair will decide when public participation is to finish.

If there are many people present at the meeting for one item, the Chair may adjourn the meeting to allow views to be expressed more freely. 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.

An issue will not be deferred just because you cannot be present for the meeting. Remember that the amount of time you speak will be restricted, normally to two minutes only.

5. Exclusion of Press & Public

If when considering an item on the Agenda, the Committee may consider it appropriate to pass a resolution under Section 100A (4) Schedule 12A of the Local Government Act 1972 that the press and public be excluded from the meeting on the basis that if they were present during the business to be transacted there would be a likelihood of disclosure of exempt information, as defined under the terms of the Act.

6. Committee Rooms & Council Chamber and hearing aid users

To assist hearing aid users Committee meeting rooms have infra-red audio transmission systems. To use this facility, you will need a hearing aid set to the T position.

7. Recording of meetings

The Council supports the principles of openness and transparency. It allows filming, recording and taking photographs at its meetings that are open to the public - providing this is done in a non-disruptive manner. Members of the public may use Facebook and Twitter or other forms of social media to report on proceedings and a designated area will be provided for anyone wishing to film part or all of the proceedings.

No filming or recording may take place when the press and public are excluded for that part of the meeting. As a matter of courtesy to the public, anyone wishing to film or record proceedings is asked to provide reasonable notice to the Committee Administrator so that the relevant Chair can inform those present at the start of the meeting.

We would ask that, as far as possible, members of the public aren't filmed unless they are playing an active role such as speaking within a meeting and there may be occasions when speaking members of the public request not to be filmed.

The Council will be undertaking audio recording of some of its meetings in County Hall as part of its investigation into a business case for the recording and potential webcasting of meetings in the future.

A copy of the Council's Recording of Meetings Protocol should be on display at the meeting for inspection, alternatively contact the Committee Administrator for the meeting in advance.

8. Operating Principles for Audit Committee

Reports

- i. The reports should be clearly and concisely written. The report template available to officers on the intranet will be used.
- ii. Reports should highlight issues for Member consideration, no matter how difficult or complex, for example:
 - All reports should detail current performance levels.
 - All reports should identify cost implications.
- iii. No report should contain a recommendation "to note" the report.
- iv. Any report, which outlines clear priorities for improvement, should contain recommendations and a detailed action plan with timescales and resources.

Members

- i. Members should be clear about cost and resourcing issues highlighted in clearly and concisely written reports.
- ii. Members should seek to understand the impact of reports on Council performance.
- iii. Members can refer reports / issues back to the Cabinet where there are constructive concerns about services and/or performance.

9. The Role of the Audit Committee

- (a) Approves (but not directs) internal audit's strategy, plan and performance;
- (b) Reviews summary internal audit reports and the main issues arising, and seeks assurance that action has been taken where necessary;
- (c) Considers the reports of external audit and inspection agencies;
- (d) Ensures that the Council's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it;
- (e) Ensures that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process and effective financial governance is actively promoted;

(f) Reviews the financial statements, external auditor's opinion and reports to Members, and monitors management action in response to the issues raised by external audit;

(g) Approves the annual accounts of the Council and the Annual Governance Statement, together with considering the Matters Arising from the Accounts Audit.

Minutes of the meeting of the Somerset County Council Audit committee held at 10am on 22nd September, in the Luttrell Room, County Hall, Taunton TA1 5DY.

Committee members present: Cllr Dean Ruddle (Chair), Cllr Andy Sully (Vice-chair), Cllr Jeny Snell, Cllr Norman Cavill, Cllr Mike Carswell, Cllr Mandy Chilcott, Cllr Hugh Davies, Cllr Lee Baker, Cllr Habib Farahi, Cllr Simon Carswell, Cllr Peter Clayton, Jennifer Whitten (virtual)

Non-committee members present: Cllr Steve Ashton (as sub), Cllr Liz Leyshon (virtual), Cllr Tessa Munt (virtual), Cllr Evie Potts-Jones (virtual), (Cllr Leigh Redman (virtual), Cllr Marcus Kravis (virtual), Cllr Andy Dingwall (virtual)

Officers present: Jason Vaughan (Director of Finance and Governance, Angela Farmer (Local Government Reorganisation Risk Manager), Alastair Woodland (Head of Audit SWAP Internal Audit Services), Julie Masci (Director Audit Grant Thornton LLP), Barrie Morris (Director and PSA Head Audit Quality Regulation, Audit Grant Thornton LLP), Anton Sweet (Service Manager Investments), Pam Pursley (Risk Manager), Stephanie Gold (Senior Democratic Services Officer) and Jonathan Hallows (Democratic Services Officer).

Agenda item 1: Apologies for absence

Apologies for absence were received from

- Cllr Tim Kerley
- Cllr Mike Lewis (substituted by Cllr Steve Ashton)

(the apologies were due to a meeting clash with South Somerset District Council Audit committee)

Agenda item 2: Declarations of interests

Cllr Mike Carswell informed the committee that he is a recipient of a local government pension fund.

Agenda item 3: Minutes of the previous meeting held on 28th July 2022,

The minutes of the previous meeting held on 28th July 2022 were approved subject to two corrections being made to officer names and job titles. In addition, members asked the clerk to ensure that the minutes of the meeting, particularly member questions and the responses received, were detailed consistently throughout.

Agenda item 4: Public Question Time

There were no members of the public registered to speak. The Chair advised that a late question had been received from a member of the public, and that a full written response would be sent.

Agenda item 5: Work programme

Jason Vaughan (Head of Governance and Finance and S151 Officer) presented the current work programme and invited questions and comments from all members of the committee.

After a brief discussion between members and officers it was agreed that the 'Informing the audit assessment' reports from Grant Thornton LLP would be reviewed at the November meeting of the audit committee.

Agenda item 6: External audit progress report

Barrie Morris (Director Grant Thornton LLP) introduced the external audit progress update report and advised that the audit had made a strong start with lots of evidence being returned promptly. Unfortunately, over the past couple of weeks there had been some challenges with maintaining that momentum, particularly evidence concerning valuation of assets, but this has been escalated to the Head of Governance and Finance to try and progress this as soon as possible.

He advised that there are no significant issues arising from the audit to date and asked members to refer to the current work programme which advised that the full Audit findings and Accounts would be coming to the November meeting, but that this was subject to a statutory override adjustment being put in place by Department Levelling Up, Housing and Communities to resolve nationwide issues concerning Infrastructure Assets.

The following comments and questions were received from members

- What are the reasons for the issues with valuation of assets at the current time? Is this to do with resourcing? The Head of Governance and Finance officer acknowledged that this had been an issue for some time, and agreed that it was disappointing, but that it was being addressed.
- A suggestion that the final accounts come to committee subject to the statutory override adjustment being implemented. The Director of Grant Thornton LLP agreed that this would be the case.

The Chair thanked the officers for their attendance and the committee accepted the report.

Agenda item 7: External Audit - Somerset Pension Fund Audit Findings Report

Julie Masci (Director Audit Grant Thornton LLP) introduced the Audit findings report for the Somerset Pension Fund. She advised that the audit had gone very well with work

substantially complete and expressed her appreciation and thanks to all involved in pulling the audit together. In terms of overall conclusions, she advised that it was anticipated that an Unqualified opinion would be signed off, meaning that the audit is clean with material adjustments arising from the audit being identified. She asked members to consider the following key aspects of the report:

- Page 36 - Risks that are reported as 'not considered a significant risk' are reported for compliance to the International Auditors Standards and for completeness.
- Page 37 - Management override of controls, there are no significant issues identified here.
- Valuation of investments - Level 3 are the harder to value investments and we spend a lot of time looking at these.
- Page 38 - Valuation of pensions liability – no significant issues identified from our work
- Page 39 - Controls, systems and processes. This involves ICT controls which we have brought your attention to and a response to this has been addressed in the management response.
- Page 52 sets out the action plans that have been produced in agreement with senior leadership and management teams.

The following comments and questions were received from members:

- What are the processes for the procurement of actuary appointments for the fund? The service manager Investments advised that this was done via a framework overseen by 'Norfolk'. An actuary is appointed where they can demonstrate the skills and qualifications to conduct the work and there are no concerns over their abilities at this time. Retendering of the actuaries is due in 2024 and it was anticipated that a joint procurement exercise would be undertaken with Devon County Council.
- Page 39 - Controls systems and processes: Deficiencies that were evident last year include policies that were not enforced. The committee were advised that although issues had been identified previously, systems and controls were in place to manage these issues.
- Concerns that when 'issues' had been identified but instances of the issue had not been found, the issue was then not taken further. Is this a sensible approach to take?
- What is a 'framework'? The Service Manager Investments gave members a broad overview of frameworks and how they work to increase efficiencies in a Local Authority context.
- Page 42 - Tri annual review for pension fund was due 31st March 2022. Has this been done? The Service Manager Investments advised that this was required every three years and that the next one is due 31st March 2022. This date is the deadline for collection of the data, and the draft results are expected to be brought to the pensions committee by the end of year. Following this the formal report is usually submitted by March of the following year (2023).

The Chair thanked all the officers for their attendance and the committee accepted the report.

Agenda item 8: Internal audit progress report September 2022

Alastair Woodland, Head of Audit at SWAP Internal Audit Services provided members with the regular progress update, highlighting the following key points from the report-

- Page 60 – Overview of Audit plan since July, note that there is one ltd assurance opinion to bring to your attention.
- Page 62 – Somerset County Council strategic risks and where this audit work falls against those risks.
- Page 63 – Track and monitoring of recommendations that are ltd or no assurance audits.
- Page 66 – School conditions survey. Actions have been agreed and those will feature in the track and monitor dashboard as above.
- Page 67 - appendix C details follow up works that have been taken and whether recommendations have been implemented.
- Page 67 - Mental Health and Care plans. These are being monitored and will remain on the tracker.
- Page 68 – Supplier resilience – The actions that have been taken significantly reduce the risk in this area.
- Page 69 – Highway application for payments – There is one priority outstanding, and this is still a risk area, but new contracts are going to implemented in 2024 and therefore SWAP is not proposing to do any more work in this area.
- Appendix D is an overview of the Audit plan for the year. This is flexible and can be amended throughout the year.
- Appendix E provides details on LEP grants.

The following comments and questions were received from members:

- Page 61 – Use of ‘Scrutiny role’ - The role of an audit committee is not to scrutinise.
- Page 63 – We welcome the ‘rationalising of recommendations’ due to pressures of Local Government Reorganisation
- Regarding LGR, Will SWAP be using information from PWC when looking at quality assurance of LGR? The Head of Audit for SWAP confirmed that SWAP will be working with PWC on quality assurance for LGR, but this would not be reported to this committee, but under the LGR programme itself. Suggest this committee liaise with the LGR programme on this.
- Page 67 Appendix C Mental Health care plans states that ‘Audit trail for care plans is not always complete’ however page 70 – Mental Health care plan review is marked as complete. Are these two different things? The Head of Audit explained that although

the review is complete, these actions will remain on the tracker to continue to reduce the risk in this area.

- Page 69 Appendix C - Highways application for payment – are we not concerned that this risk could escalate in the next 18 months? The Head of Audit agreed that whilst this is a priority one risk, but as there is no further work being done in that area, there is no need for any further audit of the area at this time. After some discussion members requested a written follow up on this, prior to the next meeting.
- Page 67 Appendix C – Mental Health care plans – It is concerning to read that ‘in some cases there is no evidence of the financial value of the package of care being approved’. Can the committee request a written follow up on this also?
- Members discussed and agreed to request that the Audit committee may call in all Priority One risks areas for follow up.

The Chair thanked the officer for his attendance and the committee accepted the report.

Agenda item 9: Local Government Reorganisation strategic risk update

Angela Farmer (Local Government Reorganisation Risk Manager) gave an update on the Local Government Reorganisation Risk register with a series of slides. She explained the levels of risk for the programme; strategic level, and programme level and that reviewing and monitoring LGR risks is achieved by:

- Weekly meeting with programme director to discuss current risk from different perspectives.
- Monthly reporting to the LGR programme board
- Monthly reporting to workstream boards (workstream risks are also fed into the reporting to the LGR programme board above)
- Monthly reports are taken to the LGR joint Scrutiny committee

The LGR Risk Manager highlighted two new risks that have been added to the register and this is detailed within the register.

In early assessments, the work of Quality Assurance and LGR Risk Management is broadly in line, which is reassuring as we work through the LGR programme.

The following comments and questions were received from members.

- Concerns regarding the matrix used in the report as this is not familiar to members. Members requested that the more familiar 5/5 matrix is used here.
- In terms of any inherent and residual scores being the same, does this mean that none of those controls and actions are working? The LGR Risk Manager acknowledged this can be concerning, but also that some risks can only be mitigated so far, and there may be times when risk is tolerated, rather than reduced.

- Further concern that the 'weighting' matrix used in the register is liable to subjective interpretation and is therefore not an appropriate measure.
- Page 85 ref 24 – Section 24 Protocol. What independent checks are in place to make sure the Section 24 protocol is being followed by all councils? The Head of Governance and Finance explained how the S24 protocol works and assured members that this protocol is being monitored by all S151 officers including himself as the S151 officer for the continuing authority.
- On this report there are a lot of reds and ambers, how often are these risks scores reviewed? The LGR Risk Manager explained that the risks are reviewed monthly in the main, but some are reviewed weekly. Not all risks will close when the LGR programme is complete, in some cases the risks will continue and be carried over into the risk register for the new Somerset council. E.g., regional, and nationwide recruitment and retention risk.
- Can we include illustrations for 'direction of travel' in this analysis?
- Regarding risk identified with recruitment and retention of staff, can we have more assurance that this council is doing all it can to mitigate this? The Chair explained that whilst the LGR Risk Manager measures and monitors the risk, the details on actions in place and the impacts of LGR on this area would need to come from the risk owner.

The Chair thanked the officer for their attendance and the committee accepted the report.

Agenda item 10: Any other urgent items of business

There were no other urgent items of business raised by the Chair.

(MEETING CLOSED 11.23am)

APPROVAL OF ACCOUNTS 2021/22

Lead Officer: Jason Vaughan, Director of Finance & Governance

Author: Paul Griffin, Service Manager – Chief Accountant

Contact Details: jzvaughan@somerset.gov.uk or (01823) 359629 or
pxgriffin@somerset.gov.uk or (01823) 359574

Executive Member: Liz Leyshon

Division and Local Member: All

1. Summary/link to the Annual Plan

- 1.1** The Accounts and Audit (Amendment) Regulations 2022 states that, as part of the formal process of closing the County Council's 2021/22 accounts the Chief Financial Officer is required to approve the draft Statement of Accounts by 31 July and the Audit Committee is required to approve the audited accounts by 30 November 2022.

2. Issues for consideration

2.1 Members are asked to:

- **Consider** the matters raised in Grant Thornton's Audit Findings Report.
- **Approve** the updated Annual Governance Statement as included within the Statement of Accounts (section 6).
- **Consider** the updated Statement of Accounts for 2021/22 (Appendix A); and
- **Approve** the Letter of Representation on behalf of the Council. (section 5.1 and Appendix B).

Members are also asked to note the position of the External Auditors assessment of the Authority's Value for Money (VFM) judgment (section 7).

3. Background – Statement of Accounts

- 3.1** The Accounts and Audit Regulations issued by the Secretary of State set out the requirements for the preparation and publication of final accounts. These regulations include the requirement for the formal approval, by a full Committee, of the Authority's Statement of Accounts.

- 3.2** The attached Statement of Accounts (Appendix A) has been prepared in accordance with the current Code of Practice on Local Authority Accounting in Great Britain (The Code). The Statement is required to present a true and fair view of the County Council's financial position as at 31 March 2022 and also the income and expenditure for the financial year 2021/22. A separate Statement of Accounts has been produced for the Pension Fund.
- 3.3** The Statement of Accounts was available for public inspection during the 30-working day period running from 1 August to 12 September 2022.
- 3.4** The Authority's external auditors, Grant Thornton, started their detailed examination of the Statement of Accounts on 1 August 2022. There are some elements of the audit that remain outstanding at this point in relation to Highways Infrastructure assets that are awaiting a statutory override. The statutory instrument is currently forecast to come into legislation on 25th December 2022, which means the reporting date of 30th November will not be met. The Council are in discussions with Grant Thornton, and an update to the Committee will be made when details of the override are confirmed.

The Committee will be unable to approve the accounts for 2021/22 until the override comes into legislation, as the statutory override is likely to cause a material change in the presentation of the accounts.

The Audit Findings Report based on work completed to date has been published and will be presented in the draft Audit Findings Report published within the same suite of agenda papers.

- 3.5** Grant Thornton are required to carry out a review of the Whole of Government (WGA) consolidation pack (on behalf of the National Audit Office). At the time of writing, central guidance has yet to be received for the 2021/22 financial year so that work is not yet complete.

Grant Thornton are only able to formally conclude the audit and issue their final Audit Report and Audit Certificate if they have received a copy of the Statement of Accounts as approved by this Committee and all elements of their work are concluded.

Members will be notified when details of the statutory override are known, and the audit work has been concluded, so final approval of the accounts can be considered.

4. Statement of Accounts – Content

- 4.1** The content and format of the Accounts is as prescribed in the Accounting Code of Practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), based on International Financial Reporting Standards (IFRS), and has been developed by the CIPFA/LASAAC Code Board under the oversight of the Financial Reporting Advisory Board.

The Authority's Statements includes the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet, and a Cash Flow Statement. In addition, there is an extract from the Somerset Pension Fund Accounts.

- 4.2** There are no significant presentational changes this year.

- 4.3** In recent years, the authority has seen a change in the audit approach taken by Grant Thornton, with increased scrutiny of the authority's accounting estimates and related disclosures. This includes increased scrutiny of journal postings and the evidence supporting those entries. There has also been a significant focus on two of the largest accounting estimates (pensions liability and property valuations). This additional scrutiny has been seen nationally following requests made on auditors by the Financial Reporting Council and auditing standards. This applies to audits at all authorities. The remainder of this section details the significant findings during the audit process this year, and the subsequent changes to the accounts since they were made available to the Audit Committee in August 2022.

4.4 IAS19 Pensions Liability – Long term salary assumption amendment

The Council is required by the Code to account for post-employment pension benefits in accordance with IAS 19 Employee Benefits. Accounting for defined benefit plans, such as the Local Government Pension Scheme (LGPS), is complex because actuarial assumptions and valuation methods are required to measure the Balance Sheet obligation (liability).

The unaudited accounts issued on 29 July 2022, included a number of LGPS assumptions (one of which related to the potential long-term salary increase for employees in the scheme). During their review, audit challenged the Council's assumption of a 2% annual increase which had been based on the Bank of England's target rate of inflation, suggesting a rate of 4.25% (CPI+1%) would be more appropriate. As the IAS19 pensions liability represents an accounting position rather than the actual funding position, the Council agreed to amend the salary assumption adopted in the 21/22 accounts.

The change from a 2% to 4.25% long term salary assumption has increased the overall IAS19 pensions liability by £57.351m (from £812.682m to £870.033m). Under accounting regulations, this increase is not chargeable to the General Fund, so the additional liability has been backed out through the Comprehensive Income & Expenditure Statement to the unusable Pensions Reserve.

4.5 Minimum Revenue Provision (MRP) – estimated under provision in 21/22
Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, local authorities are required to charge MRP to their revenue account in each financial year. Before 2008, the 2003 Regulations contained details of the method that local authorities were required to use when calculating MRP. This has been replaced by the current Regulation 28 of the 2003 Regulations, which gives local authorities flexibility in how they calculate MRP, providing the calculation is 'prudent'. In calculating a prudent provision, local authorities are required to have regard to statutory guidance.

During their review of the Council's MRP policy in 2021/22, the auditors have questioned the prudence of the Council's policy, suggesting a prudent MRP provision should be around 2% of an authority's Capital Financing Requirement (CFR). This is a change from previous audit findings reports and if accepted would suggest the Council's MRP charge for 2021/22 was understated by approximately £5m.

The Government are expected to clarify the statutory guidance to clarify what is meant by a 'prudent provision' but at the time of writing the guidance has yet to be issued. For this reason, the Council has agreed to review the MRP charge for 2022/23 but has not amended the provision for 2021/22.

The Council's MRP policy was already under review as part of the Local Government Reorganisation in Somerset, so the opinion of external audit and any revised Government guidance will be considered when the MRP policy for the new authority is drafted in 2023/24.

4.6 Grant Income - Re-classification of Government grant

During a review of the authority's grant income note (Note 23), it became apparent the unaudited accounts had mis-classified the Troubled Families grant as Other Service grant. The total of the grant income reported (£1.206m) was correct, but the allocation was disclosed on the wrong line of the disclosure note. This misclassification has been corrected in the final set of accounts.

The review also identified a typographical error in a supporting worksheet that had incorrectly pushed some of the grant values into a deficit position. As above, this error did not impact on the total amount of grant being reported in the note but did alter a number of lines (including Standards Fund and LEP grant). This error has been corrected for the final set of accounts.

4.7 Property, Plant and Equipment – Property valuation omission

During their review of the in-year Property valuations, audit noted a school extension had not been picked up in the valuation report. The school had been included in the annual desktop valuation, so no formal inspection had been carried out. The extension would have added an additional £1.314m on the carrying value of the school, so the accounts have been restated to ensure the correct value is being reported.

4.8 Property, Plant and Equipment – Revaluations misstatement

During their review, the auditors identified a misstatement in the values being reported under the Other Land & Buildings column of the Revaluation Year table reported on page 127. The total of the column (£465.274m) was correct but the valuation year figures included in the total were incorrect. The error had arisen due to the desktop valuations in 2021/22 being reported in the wrong year. This misstatement has been corrected for the final set of accounts.

4.9 Highways Infrastructure assets – Derecognition of Gross Cost and Accumulated Depreciation

At the time of writing, we are awaiting the results of a Government consultation on the reporting of gross cost and accumulated depreciation for Infrastructure assets. Although the results are still to be confirmed, if as expected the government put a statutory override in place, a number of derecognition adjustments made to Note 25 will no longer be required. These adjustments (made to gross cost and accumulated depreciation) had a net nil impact to the carrying value of the councils Infrastructure assets and have been removed from the final accounts.

4.10 Termination Benefits (Note 19 – table 4) – Exit Package misstatement

During their review, the auditors noted the number of exit packages within the £40k to £60k banding had been overstated by 1 package. This caused an imbalance with the total number of packages being reported in Note 20. Having checked the supporting evidence, it was discovered that Note 20 was correct, so the number of £40k to £60k exit packages reported for 2021/22 has been reduced from 2 to 1.

4.11 Fees for External Audit Services misstatement

During their review, the auditors noted the Audit Fee disclosure (Note 21) did not agree back to the approved audit plan. This was a minor overstatement but given the prominence of the disclosure, the amounts have been amended to ensure the disclosure matches the audit plan.

4.12 A few minor errors/omissions were also identified during the audit review, and a small number of accounting policies have been amended to ensure the policies disclosed were relevant and worded correctly.

5. Letter of Representation

- 5.1** The International Standard on Auditing 580 requires auditors to obtain written representations from management and, where appropriate those charged with governance in an audit of the financial statements. This statement can be found in Appendix B as a formal Management Representation letter to Grant Thornton

The Committee are requested to formally approve this representation. Once approved the letter will be passed to our auditors.

6. Annual Governance Statement

- 6.1** The draft Annual Governance Statement (AGS) for 2021/22 was approved by the Audit Committee at its meeting in July. Best practice requires local authorities to review their Annual Governance Statement immediately before the Statement of Accounts is approved to ensure that the governance framework and risks have not significantly changed since the review was carried out.
- 6.2** In accordance with the CIPFA disclosure requirements, following formal approval of the Annual Governance Statement, the Governance Board will develop an Action Plan for 2022/23 aimed at further strengthening the Council's governance. Many of these will already be known and on-going actions, such as the continual review of the Constitution and key financial and organisational policies, especially in the light of Local Government Reorganisation.

6.3 The main purpose of the Annual Governance Statement is to provide the necessary assurance that a reliable framework was in place for the financial year that aligns to the Statement of Accounts.

However, best practice suggests that the Annual Governance Statement should also reflect the unique features and challenges of the County Council, and that it should therefore anticipate known and potential governance challenges ahead. This year's Statement includes the following significant challenges ahead for 2022/23:

- Sustainable financial position
- Local Governance Reorganisation
- Covid 19
- Integrated Care System
- Special Educational Needs & Disability (SEND) Improvement Plan
- Organisational Capacity and Resilience

By doing so, it highlights these areas which could present significant corporate risks during 2022/23 and future financial years. The Committee can be reassured that mitigations and management actions are already underway on these matters.

7. Value for Money (VFM)

7.1 On 1 April 2020, the National Audit Office (NAO) introduced a new Code of Practice which introduced a revised approach to the VFM audit.

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

- A new set of key criteria, covering financial sustainability, governance and improving economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the previous 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on significant weaknesses in arrangements identified during the audit.

- 7.2** The Code requires auditors to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria (financial sustainability, governance and improving efficiency and effectiveness).
- 7.3** In their 21/22 audit plan, Grant Thornton's risk assessment focused on two key areas:
- Financial Sustainability; and
 - Arrangements for transition to the new Unitary Authority
- 7.4** The VFM review has been concluded, and Grant Thornton are satisfied that the Council had made proper arrangements for securing economy, efficiency, and effectiveness in its use of resources. The review found no significant weaknesses but made several improvements recommendations. Further details on these recommendations can be found in the Executive Summary (Page 3) of the Auditors Annual Report for 2021/22.

8. The next steps

- 8.1** Members will be notified when details of the statutory override are known, and the audit work has been concluded, so final approval of the accounts can be considered.
- 8.2** After approval of the Statement of Accounts and Letter of Representation by this committee the audited Statement of Accounts will be published and made available on the internet.
- 8.3** When received the audit certificate will be added to the audited Statement of Accounts which will be published and made available on the internet.

9. Background papers

- 9.1** Executive (15 June 2022) - 2021/22 Revenue Budget Outturn Report; and 2021/22 Capital Budget Outturn Report

Note: For sight of individual background papers please contact the report author.

Annex 1

Disclosure amendments since draft accounts were issued:

| Page | Statement/Note | Description |
|---|---|---|
| Adjusted Misstatements | | |
| 76, 78 | Comprehensive Income and Expenditure Statement, Movement in Reserves | To amend the disclosure for the reduced remeasurement gain on pension liabilities (from £234.469m to £177.118m), due to the change from a 2% to 4.25% long term salary increase assumption. |
| 12,13,78, 145, 147, 158, 163 and 166 | Narrative Report, Balance Sheet, Note 35, 40 and 44 | To amend the disclosure for the change in pensions reserve and liability, due to the change from a 2% to 4.25% long term salary increase assumption. |
| 177, 178, 180, 182 and 183 | Note 52 – Local Govt Pension Scheme (LGPS) | Multiple amendments to ensure the disclosure is correctly reporting the LGPS position due to the change in long term salary assumption mentioned above. |
| 119 | Note 21 | To amend the amounts reported as being payable for the main audit and grant claims, to ensure they agree to the audit plan. |
| 76, 78, 79, 112, 124, 127, 163 and 164. | Comprehensive Income and Expenditure Statement, Movement in Reserves, Balance Sheet, Note 16,25 and 44. | To include a school extension (£1.314m) in the carrying value of Other Land & Buildings, that had been omitted from the in-year valuation in error. |
| Misclassification and disclosure changes | | |
| 114 | Note 19 | To reclassify the 1 non-school employee reported in error, from the £120,000- £124,999 pay banding to the £115,000 - £119,999 band. |
| 121 and 122 | Note 23 | To reclassify the grant income incorrectly reported as negative, and to recognise the Troubled Families grant correctly in the note. |
| 124 and 125 | Note 25 | Removal of the Infrastructure gross cost and accumulated depreciation adjustments, due to the Governments imminent statutory override |
| 127 | Note 25 - Revaluations | The values for Other Land & Buildings have been reclassified into the correct valuation year. |
| Various | Various | Other amendments including spelling, grammar and syntax and other minor disclosures. |

Somerset County Council Statement of Accounts 2021/22

Audited Accounts for Approval



Jason Vaughan
FCCA, CPFA, IRRV (Hons)
Director of Finance &
Governance

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www.somerset.gov.uk

Contents

| Note No. | | Page |
|----------|---|------|
| | Director of Finance & Governance's Narrative Report | 1 |
| | Statement of Responsibilities | 18 |
| | Independent Auditor's Report to Members of Somerset County Council | 19 |
| | Annual Governance Statement for year ended 31 March 2021 | 25 |
| | Statement of Accounting Policies | 53 |
| | | |
| | Primary statements: | |
| | Comprehensive Income and Expenditure Statement | 76 |
| | Movement in Reserves Statement | 77 |
| | Balance Sheet | 79 |
| | Cash Flow Statement | 81 |
| | | |
| | Notes to the core financial statements: | |
| 1 | Prior-Period Adjustment | 82 |
| 2 | COVID-19 Pandemic Response | 85 |
| 3 | Accounting Standards that have been issued but have not yet been adopted | 88 |
| 4 | Critical Judgements in Applying Accounting Policies & Changes in Accounting Estimates | 89 |
| 5 | Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty | 92 |
| 6 | Events after the Balance Sheet Date | 95 |
| 7 | Expenditure & Funding Analysis | 96 |
| 8 | Notes to the Expenditure & Funding Analysis | 99 |
| 9a | Expenditure and Income Analysed by Nature | 101 |
| 9b | Revenue from Contracts with Service Recipients | 102 |
| 10 | Segmental Reporting | 103 |
| 11 | Adjustments between Accounting Basis and Funding Basis under Regulation | 105 |
| 12 | Transfers to/from Earmarked Reserves | 109 |
| 13 | Other Operating Expenditure | 111 |
| 14 | Financing and Investment Income and Expenditure | 111 |
| 15 | Taxation and Non-Specific Grant Income | 111 |
| 16 | Surplus or Deficit on Revaluation of Fixed Assets | 112 |
| 17 | Pooled Budgets | 112 |
| 18 | Members' Allowances | 114 |
| 19 | Senior Officers' Remuneration | 114 |
| 20 | Termination Benefits | 118 |
| 21 | Fees for External Audit Services | 119 |
| 22 | Dedicated Schools Grant | 119 |

| | | |
|----|---|-----|
| 23 | Grant Income | 120 |
| 24 | Partnerships and Related Party Transactions | 123 |
| 25 | Property Plant & Equipment | 124 |
| 26 | Intangible Non-Current Assets | 127 |
| 27 | Impairment Losses | 128 |
| 28 | Assets Held for Sale | 128 |
| 29 | Surplus Assets – Fair Value Measurement | 129 |
| 30 | Leases | 133 |
| 31 | Private Finance Initiatives (PFI) and Similar Contracts | 136 |
| 32 | Heritage Assets – Summary of Transactions | 139 |
| 33 | Heritage Assets – Further Information on the Council’s Museum and Archive Collections | 139 |
| 34 | Capital Expenditure and Capital Financing | 143 |
| 35 | Financial Instruments: | |
| | - Categories of Financial Instrument | 144 |
| | - Categories of Financial Assets and Financial Liabilities | 145 |
| | - Items of Income, Expense, Gains and Losses | 145 |
| | - Fair Values of Assets and Liabilities | 146 |
| | - Short-term and Long-term Investments | 147 |
| | - Long-term Receivables | 148 |
| | - Short-term Borrowing | 149 |
| | - Long-term Borrowing | 149 |
| 36 | Nature and Extent of Risks Arising from Financial Instruments | 149 |
| 37 | Inventories | 157 |
| 38 | Short term Receivables and Payments in Advance | 157 |
| 39 | Short term Payables and Receipts In Advance | 158 |
| 40 | Other Long-term Liabilities | 158 |
| 41 | Provisions | 158 |
| 42 | Revenue and Capital Grants/Contributions Receipt in Advance | 160 |
| 43 | Usable Reserves | 161 |
| 44 | Unusable Reserves | 163 |
| 45 | Cash and Cash Equivalentents | 170 |
| 46 | Cash Flow Statement – Operating Activities | 170 |
| 47 | Cash Flow Statement – Investing Activities | 171 |
| 48 | Cash Flow Statement – Financing Activities | 171 |
| 49 | Reconciliation of Liabilities Arising from Financing Activities | 171 |
| 50 | Contingent Liabilities | 173 |
| 51 | Trust Funds | 173 |
| 52 | Pension Schemes | 174 |
| 53 | Group Accounts | 183 |
| | Pension Fund | 184 |
| | Glossary of Terms | 236 |
| | More Information | 243 |

Director of Finance & Governance’s Narrative Report

1. Introduction

This narrative report highlights some of the most important matters reported in the accounts and comments on the Council’s financial performance and its economy, efficiency, and effectiveness in its use of resources over the financial year.

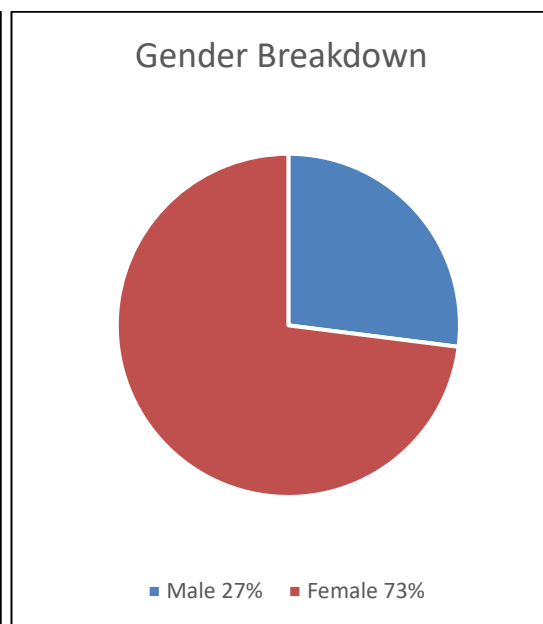
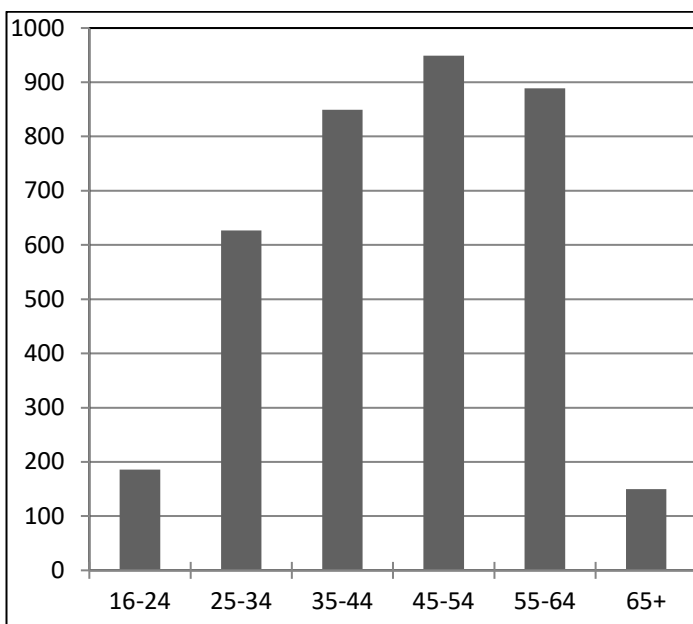
2. Somerset Context

Somerset is a beautiful county with many assets including a strong and significant heritage and vast areas of countryside and moors. Somerset’s population is classified as around 52% urban/town, and 48% rural, making it one of the ten most rural counties in England. One third of people live in one of the county’s four largest towns: Taunton, Yeovil, Bridgwater, and Frome.

The population of Somerset is approximately 563,900 with an age profile that is weighted slightly towards people of older age; around 1 in 4 of the residents of the county are over the age of 65. Nearly 90% of the population growth since 2011 has been in the 65 and over age group. Somerset’s employment rate remains higher than the national level (76.1% compared to 74.8%) with 78.6% of Somerset’s residents aged 16-64 being classified as economically active. This is marginally higher than the national average of 78.4% although average annual earnings in Somerset consistently lag behind the UK level.

3. People Context

Somerset County Council employed 3,650 people in full and part time contracts on 31st March 2022. Employees are a valued significant resource within the Council and employee’s costs account for 29% of the total gross expenditure. The Council’s workforce profile can be seen in the charts below.



4. Somerset County Council Governance

Somerset Council is a broad and complex organisation. Policies are directed by the political leadership (Leader and Cabinet) and implemented by the Senior Leadership Team (SLT).

Political Structure in 2021/22

The Council was made up of 55 elected councillors. The political make-up of the Council during 2021/22 was:

- Conservative Party – 31 councillors
- Liberal Democrat – 13 councillors
- Labour – 3 councillors
- Independent Group – 3 councillors
- Green Party – 2 councillors
- Independent – 1 councillor
- Vacant* – 2 councillors

* the elected members for Chard North (formerly Liberal Democrat) and Ilminster (formerly Conservative) both stood down in December 2021.

The Council has a statutory duty to set a balanced budget and the Council's Medium-Term Financial Plan, Capital Strategy, and Treasury Management Strategy were all approved by Full Council in February 2021.

Chief Officer Structure

Councillors are supported by Senior Leadership Team (SLT) , which is headed by the Chief Executive, Patrick Flaherty. SLT is responsible for the overall management of the Council, for setting and monitoring overall direction and ensuring high performance in the delivery of council services.

SLT is supported by Individual Director's Management Team meetings (held at least monthly) and several internal Boards that have delegated functions to oversee specific programmes of work or corporate functions such as:

- Strategic Commissioning Group
- Governance Board
- Asset Strategy Group
- Strategic Risk Management Group

In addition to these Officer 'gateways' and internal governance arrangements, there is also the Cabinet & SLT meetings which meet monthly to review strategic matters and policy development.

Further details of the governance arrangements in place during 2021/22 can be found in the Annual Governance Statement.

5. The County Council Vision

The Council's Vision is all about improving lives by creating:

- A thriving and productive County that is ambitious, confident, and focussed on improving people's lives.
- A County of resilient, well-connected, and compassionate communities working to reduce inequalities.
- A County where all partners actively work together for the benefit of our residents, communities and businesses and the environment in which we all live.
- A County that provides you with right information, advice, and guidance to help you help yourself and targets support to those who need it most.

Central to the Council's business is that everything it does should be designed to help improve outcomes for its residents. The Council will work with its partners, communities, and businesses to find the best ways to achieve the outcomes that matter to them, align its work and resources, and make use of all the levers available to it. The Council will always put its customers at the heart of everything it does.

Limited resources mean the Council must be realistic about how much it can do. This means making difficult choices on where to focus resources so it can do more with less, and work with partners so it can do more together. Key to this are robust financial, commissioning, and decision-making processes, good quality data, good governance, performance management, effective technology, and a willingness to do things differently.

Business Plan

Somerset deserves the best services, opportunities, and investment possible, and the business plan sets out how the Council will look to achieve these ambitions.

The plan gives its residents, businesses, and communities a clear view of its strategic direction for the next two years and provides the organisation with a single point from which all further strategic planning can flow. It describes the outcomes to achieve and the key priorities that will enable this, how the Council will deliver on the plan and how it will evidence this delivery.

First, among some of the major initiatives on the horizon and issues the Council face, will be dealing with the Coronavirus and its impacts for years to come. The Council strategy to invest to boost the local economy is important and ambitious. Climate change is an issue that must be addressed, and the public rightly expect the Council to take a lead on this. Local Government Reform is coming to Somerset, disbanding councils, and creating a new approach to running services. This plan describes what the Council will begin and continue to do to serve the residents of Somerset over this time. To work locally with its communities to build resilience within the county, to invest to support business and the economy through this difficult period, to build social value into all that the Council does, and to serve as a focal point for all strategic planning for the organisation. Somerset has a strong foundation on which to improve the lives of its residents.

- A mixture of both rural and urban areas and blessed with four Areas of Outstanding Natural Beauty, 15 National Nature Reserves and Exmoor National Park.
- Prior to the pandemic Somerset had low unemployment levels and a mixture of agricultural, engineering and tourism economies.
- The Council works well with its partners, and has a strong and wide-ranging voluntary, community and social enterprise sector.

But there are also challenges in Somerset to overcome.

- The climate emergency increases risk of flooding, sea-level rises, and coastal erosion.
- Somerset has an aging population which places greater demand on social care services and needs more opportunities to attract young people to stay or move into the county.
- There are areas of the county where people do not have the same opportunities for employment or education that need targeted support and the pandemic will not have improved this. More widely the economy needs a further boost to help Somerset recover.

The Council has delivered a lot of great work under the last business plan, and it is from this foundation that it wishes to grow. The County Council Vision set out the tenets of the organisation and these remain true.

Out of these, 4 overarching outcomes helped shape the work of the organisation, these have been refined and continue through this business plan.

1. A County Infrastructure that drives recovery, supports economic prosperity, productivity, and sustainable public services.
2. Safe vibrant and well-balanced communities able to enjoy and benefit from the natural environment whilst addressing climate change.
3. Fairer life chances and opportunity for all
4. Improved health and wellbeing and more people living healthy and independent lives for longer

The Council has done this with the encompassing theme that to deliver these outcomes we need to meet the Council’s own challenges. Therefore, a fifth outcome joins the existing four to describe how we will do this.




5. Meeting the challenges for the people of Somerset through innovation and improvement

| | | | |
|--|--|---|--|
| <p align="center">Outcome 1 A County Infrastructure that drives recovery, supports economic prosperity, productivity and sustainable public services</p> | <p align="center">Outcome 2 Safe, vibrant and well-balanced communities able to enjoy and benefit from the natural environment whilst addressing climate change</p> | <p align="center">Outcome 3 Fairer life chances and opportunity for all</p> | <p align="center">Outcome 4 Improved health and wellbeing and more people living healthy and independent lives for longer</p> |
| <p>Key Priorities</p> <ul style="list-style-type: none"> • Drive economic recovery through inclusive growth • Improve transport, infrastructure and digital connectivity • Increase the productivity of businesses and individuals • Strategic leadership of local places and supportive providers, collaborate with people, communities and partners to secure investment and support where it has the most impact on people’s lives | <p>Key Priorities</p> <ul style="list-style-type: none"> • Work with people to build a climate resilient Somerset • Work with partners and communities to deliver sustainable local services • Grow and collaborate with safe, strong, resilient and well-balanced communities • Work with local towns and parishes to deliver rural and urban solutions enhancing community assets | <p>Key Priorities</p> <ul style="list-style-type: none"> • Improve the life chances for those in greatest need, reduce inequality and improve social mobility • Better outcomes for all children and adults so that they are healthy, safe, and have good physical and emotional wellbeing • Ensure access and opportunities for all to high quality local education, skills and employment and health and care provision • Improve outcomes for vulnerable children | <p>Key Priorities</p> <ul style="list-style-type: none"> • Continue to deliver a robust response to the impact of Coronavirus on our residents • Embed a joint approach that is based on need and provides evidence-based care and support • Foster an environment that gives residents the very best quality of life • Support healthy lifestyles that build health resilience |
| <p align="center">Outcome 5 Meeting the challenges for the people of Somerset through innovation and improvement</p> | | | |
| <p>Key Priorities</p> <ul style="list-style-type: none"> • Introduce, embed and maximise the benefits of new ways of working • Prepare for transition to new local government arrangements • Continue to ensure financial sustainability for Somerset County Council • Commission services in a more collaborative way producing the best outcomes for people • Maximise the use of digital, data and technology to drive efficiency, intelligence, innovation and deliver better services for our customers | | | |

6. Performance for the year

The Corporate Performance report reflects the Council's ongoing progress towards the priorities laid out in the Business Plan. The measures used to support this report come from across the Council and are a subset of the measures monitored quarterly by Cabinet and the Senior Leadership Team. The report sets out the key activities and measures used to check the Council's performance for the year against the priorities it was working towards.

The report includes Key Performance Indicators (KPIs), where progress is assessed against targets and project updates. Performance is shown using Performance Ratings, progress is shown in terms of Direction of Performance (DOP) using arrows.

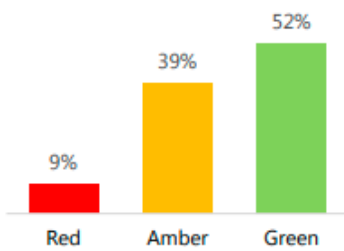
| Performance Ratings | |
|---|---|
| G | Performance is on or exceeding target. Project is on target. |
| A | Performance is off target but within tolerance. Project requires attention. |
| R | Performance is off target and outside tolerance. Project is off target. |
| B | Metric discontinued. Project is closed. |
| Direction of Performance | |
|  | Performance is improving. Project has achieved a milestone. |
|  | Performance is steady. Project is progressing. |
|  | Performance is declining. Project has missed or at risk of missing milestones. |

The following table shows the Council's progress, as at the 31st March 2022:

High level Summary

| | RAG Rating | | | Direction of Performance* | | |
|--|------------|-----------|----------|---------------------------|-----------|----------|
| | G | A | R | ↑ | → | ↓ |
| A county infrastructure that drives productivity, supports economic prosperity and sustainable public services | 5 | 0 | 1 | 0 | 0 | 0 |
| Safe, vibrant and well-balanced communities able to enjoy and benefit from the natural environment | 2 | 4 | 0 | 0 | 4 | 0 |
| Fairer life chances and opportunity for all | 2 | 5 | 2 | 1 | 6 | 2 |
| Improved health and wellbeing and more people living healthy and independent lives for longer | 7 | 0 | 0 | 4 | 1 | 0 |
| Meeting the challenges for the people of Somerset through innovation and improvement | 1 | 4 | 0 | 1 | 3 | 1 |
| TOTAL | 17 | 13 | 3 | 6 | 14 | 3 |

RAG Ratings

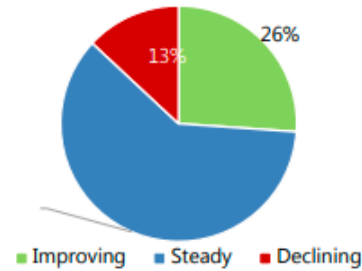


52%
of measures rated as on or exceeding target



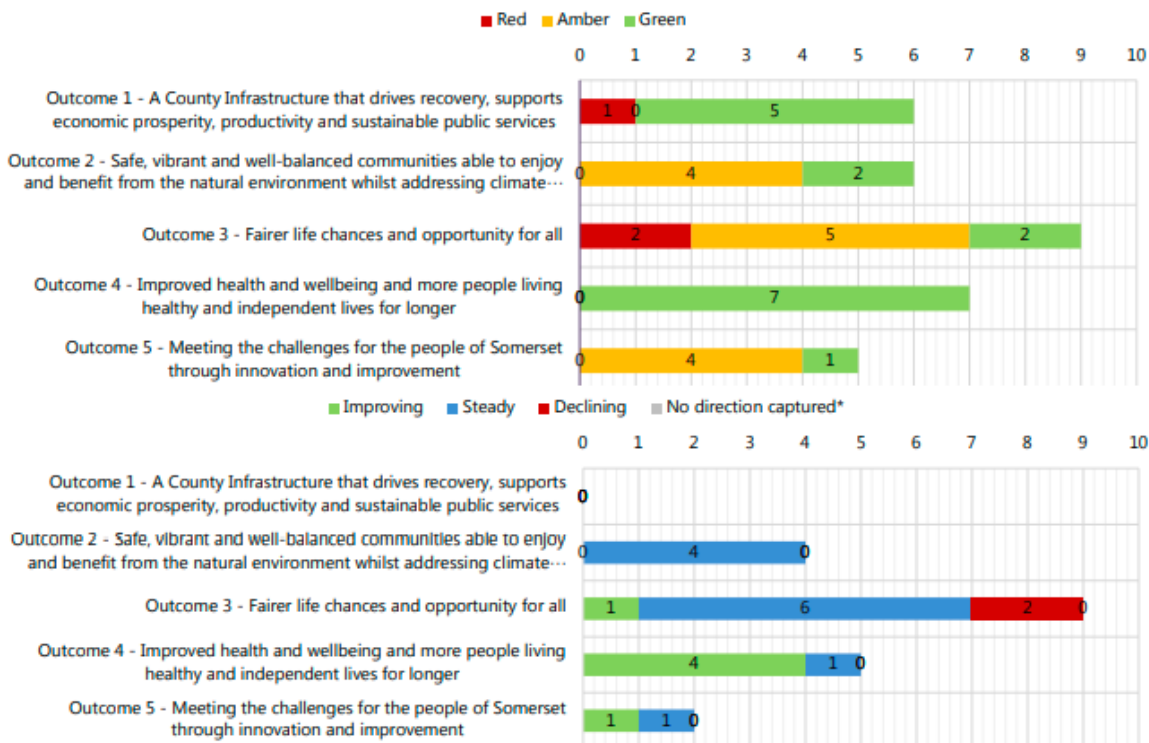
26%
of measures rated as improving

Direction of Performance



*Not all measures carry a direction of performance therefore total numbers will not match total number of RAG ratings

Summary by Vision Outcomes



*Not all measures carry a direction of performance therefore total numbers will not match total number of RAG ratings

7. Climate Change

The Council has declared a climate change emergency and over the last 12 months has been engaged in a number of climate related projects including:

- **Public Sector Decarbonisation Scheme (£12m programme underway) includes:**
 - Improvements to 12 buildings (inc. County Hall B Block, Taunton and Yeovil Library)
 - Up to 27% carbon reduction in the non-schools estate
- **Saltlands Solar Energy Park (£3.1m investment secured) to:**
 - Build Solar park on the former landfill site at Chilton Trinity, Bridgwater
 - This will generate 3.5m kWh per annum and Battery Storage
- **Bus Service Improvement Plan**
 - £11m secured to improve bus services and infrastructure
- **Building first Carbon Neutral 'Passivhaus' School in Comeytrowe**
 - £7.3m investment
 - 420 pupil places
- **SCC Climate Emergency Community Fund £1.5M secured**
 - 44 funded projects- 11 completed
 - Projects led by local communities through their Town and Parish Councils to tackle Climate Change and bring forward projects that protect the environment and support the decarbonisation agenda at the local level
 - Delivered a programme of Carbon Literacy Training to Town, Parish, County and District Members and Officers across the 5 Authorities
- **Treescapes Fund**
 - Secured £187k for tree planting and natural regeneration
 - Over 3,500 trees across schools, urban spaces and hedgerows
- **Climate Business Liaison Officer in place embedded in ED Team focused on supporting Somerset businesses with their journey to net zero includes:**
 - Carbon audit toolkit
 - Carbon reduction grants
- **Countywide Electric Vehicle Strategy developed**
 - Outlines strategic transition to EV
 - Implementation Plan under development to enable roll-out of EV Charging across the County

- **Carbon Footprinting Baseline**

- Calculating Carbon Footprint of SCC activities
- Highways Decarbonisation “Pathways” work about to begin
- Plans for Fleet Decarbonisation underway- taken delivery of first EV vehicles

- **Youth Parliament engagement to engage with and understand the concerns and views of young people across Somerset with regards to Climate Change**

- Two climate focused workshops

8. Financial Context

There were no significant changes in funding mechanisms or responsibilities during 2021/22.

The Council’s financial statements continue to be prepared on a going concern basis, on the assumption that the functions of the Council would continue in operational existence for the foreseeable future. Transfers of services under combinations of public sector bodies (such as local government reorganisation) does not negate the presumption of going concern.

The Council recognises the continuing need for improved public accountability and transparency through significantly strengthened financial reporting, in terms of frequency, quality and timeliness of reports to Cabinet, Audit Committee and Scrutiny meetings. This improved approach continued throughout 2021/22 and has helped the Council to improve its Value for Money rating. The approach taken in the Medium-Term Financial Plan has further improved the Councils financial resilience over the long-term whilst also supporting the delivery of the council’s key priorities.

9. Revenue spending in 2021/22

In February 2021, the Council agreed its budget for 2021/22 at £356.072 million and approved a band-D council tax of £1,353.53 which included an increase in Council Tax of 1.99%, an additional precept increase specifically for Adult Social Care of 3% and a precept to cover the responsibilities for the Somerset Rivers Authority of £12.84.

The following table shows the actual spending across our service headings. These figures are based on service responsibilities, rather than the total cost of providing services (including charges for using assets, and adjustments to show the true cost of providing pensions to employees), which is used in the Comprehensive Income and Expenditure Statement. Additional use of reserves totalling £3.5m were approved during 2021/22, bringing the total revised budget for 2021/22 to £359.6m.

Table 1: Comparison of net spend against revised budget

| Service | 2021/22 | 2021/22 | Difference | |
|--|-----------------------------------|------------------------------|-------------|-------------|
| | Total Revised Budget £millions | Total Net Spend £millions | £millions | % |
| Adult Services | 146.2 | 146.0 | -0.2 | -0.1 |
| Childrens Services | 101.8 | 106.0 | 4.2 | 4.1 |
| Public Health | 1.7 | 1.7 | 0.0 | 0.0 |
| Economic & Community Infrastructure Services | 76.6 | 74.9 | -1.7 | -2.2 |
| Direct Service Provision | 326.3 | 328.6 | 2.3 | 0.7 |
| Customers, Digital & Workforce | 16.7 | 16.5 | -0.2 | -1.2 |
| Finance & Governance | 9.8 | 9.8 | 0.0 | 0.0 |
| Accountable Bodies | 7.4 | 7.4 | 0.0 | 0.0 |
| Corporate Costs | -5.2 | -7.8 | -2.6 | 50.0 |
| Trading Units | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Service Provision (exc Schools) | 355.0 | 354.5 | -0.5 | -0.1 |
| Corporate Contingency | 4.6 | 1.0 | -3.6 | -78.3 |
| Covid-19 Emergency Fund | 0.0 | 0.0 | 0.0 | 0.0 |
| Total after Contingencies | 359.6 | 355.5 | -4.1 | -1.1 |
| Funded by: | | | | |
| Reserves | -27.1 | -27.1 | 0.0 | 0.0 |
| Revenue Support Grant | -6.2 | -6.2 | 0.0 | 0.0 |
| Business Rates | -56.3 | -56.3 | 0.0 | 0.0 |
| Council Tax | -270.0 | -270.0 | 0.0 | 0.0 |
| | -359.6 | -359.6 | 0.0 | 0.0 |
| Total Outturn Surplus (-) / Deficit | 0.0 | -4.1 | -4.1 | -1.1 |

The Outturn surplus of £4.1m is also reported in Note 7, but as the classification of some Corporate Costs are included in both Continuing Operations and the Provision of Services within the Comprehensive Income & Expenditure Statement (CIES), the total reported for resource management will be different from the figures in the table above. There is a similar variance with the Schools budget that is not reported at Outturn (so excluded from the table above) but included in the CIES and Note 7.

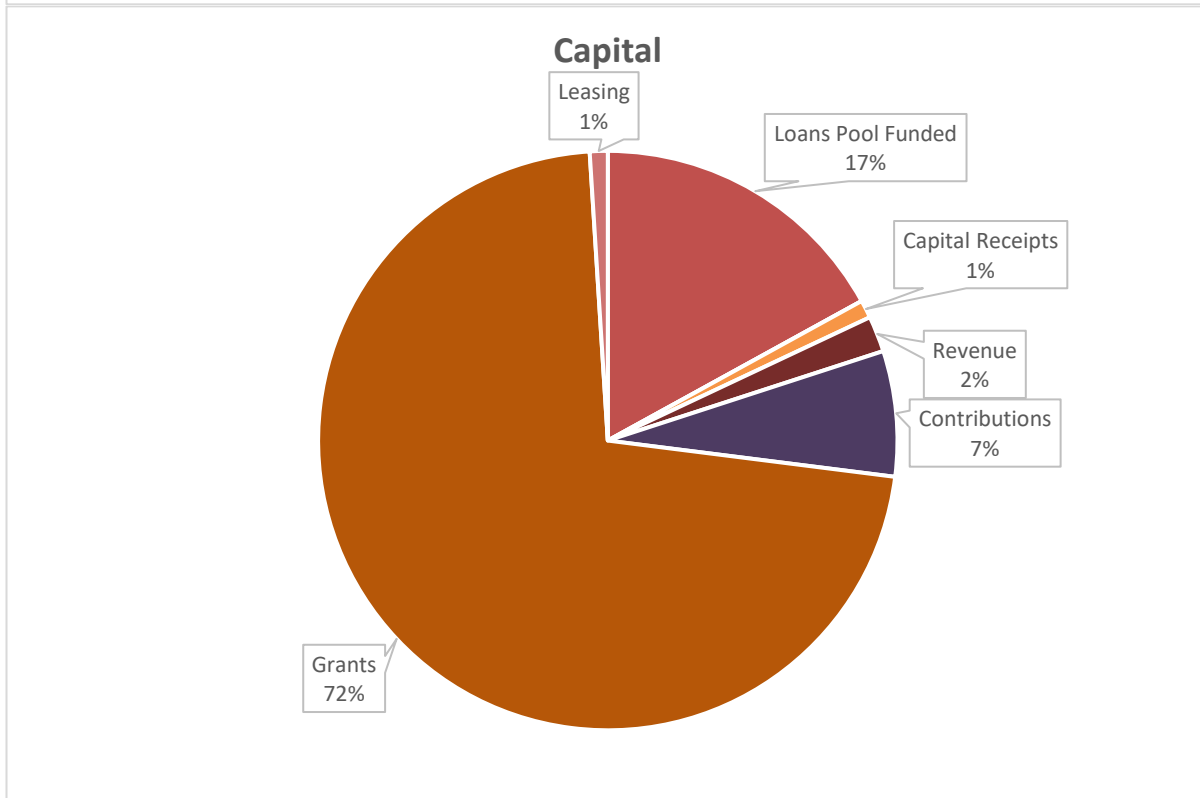
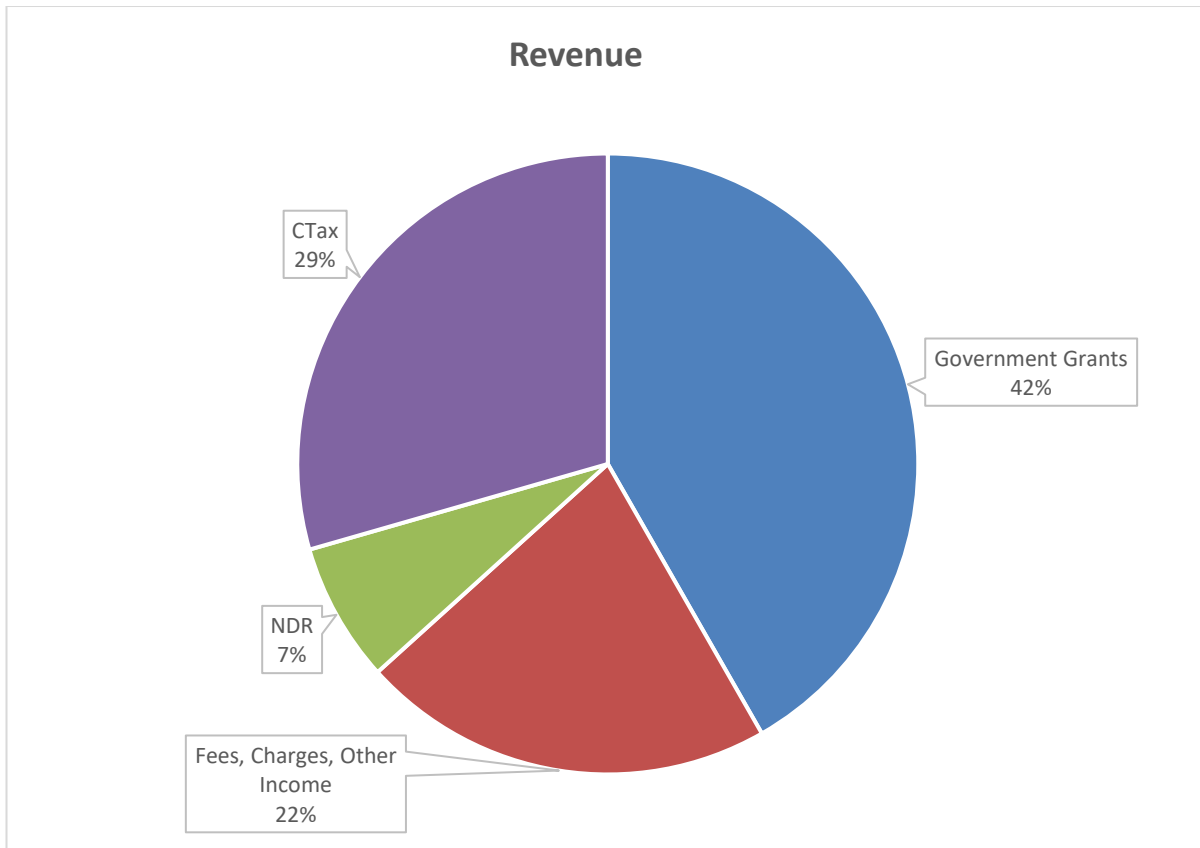
10. Capital spending in 2021/22

Alongside our day-to-day costs, the Council spends money on assets such as buildings, roads, vehicles and information and communications technology. This is capital spending. During 2021/22 our capital spending was £109.527m (£122.901m in 2020/21). The following table gives more detail on how we spent this money.

Table 2: Major Capital Schemes

| Scheme | | 2021/22 | |
|-------------------------------------|--|--------------|-----------------------|
| | | £millions | £millions |
| Economic | Road Structures | 25.752 | |
| Community and Infrastructure | Local Enterprise Partnership | 19.992 | |
| | Superfast Broadband | 7.619 | |
| | Toneway Corridor Improvements | 4.098 | |
| | Integrated Transport & Improvement Schemes | 3.074 | |
| | Traffic Control & Management | 3.024 | |
| | Taunton Digital Innovation Centre | 2.522 | |
| | Somerset Rivers Authority | 2.402 | |
| | Major Transport Projects | 1.628 | |
| | Bridge Structures | 1.622 | |
| | Bruton Enterprise Centre | 0.903 | |
| | M5 J25 Improvements | 0.820 | |
| | Rights of Way | 0.660 | |
| | iAero Centre | 0.633 | |
| | Street Lighting | 0.524 | |
| | Fleet | 0.323 | |
| | Other Projects | <u>0.539</u> | 76.136 |
| Children and Learning | Schools' Basic Need | 14.503 | |
| | Schools' Capital Repairs | 4.042 | |
| | General Education Provision | 1.826 | |
| | Early Years | 0.530 | |
| | Other Children's Services | 0.232 | |
| | Other School Projects | <u>1.061</u> | 22.194 |
| Somerset Waste Partnership | Depot Improvements | <u>2.721</u> | 2.721 |
| Support Services | Property Decarbonisation Projects | 5.055 | |
| | ICT Investment & Development | 1.456 | |
| | Other Projects | <u>1.872</u> | 8.384 |
| Learning Disabilities | Housing/ Assistive Technology | <u>0.092</u> | 0.092 |
| Total Capital Spending | | | <u><u>109.527</u></u> |

The diagrams below show where our money came from. It is important to note that the contribution from the local community through the Council Tax represents just 29% of our revenue funding needs.



11. Borrowing facilities

Under the Prudential Code, the Council has set an authorised limit against which our external borrowing is monitored and managed. For 2021/22, the Operational Boundary was set at £463m (£595m for 2020/21). On 31 March 2022, the amount we owed was £354m (£351.5 m in 2020/21).

| On 31 March 2021 | Borrowing | On 31 March 2022 |
|------------------------|--|------------------------|
| £millions | | £millions |
| 162.9 | Public Works Loan Board (PWLB) | 160.3 |
| 181.4 | Other long-term loans | 183.7 |
| 7.2 | Other organisations investing in the Comfund | 10.0 |
| <u>351.5</u> | | <u>354.0</u> |

In line with accounting practice, the Council must show the 'fair value' of its loans. The fair value of the PWLB loan is £207.207m at 31 March 2022 (£225.080m at 31 March 2021). The fair value of the other long-term loans is £261.055m at 31 March 2022 (£295.027m at 31 March 2021).

During the year, the Council adopted a strategy to limit external borrowing and reduce the cost of borrowing via its Treasury Management activities, by utilising cash funds available rather than taking external debt. This is known as internal borrowing. The council has utilised this strategy over the past three years with the level of internal borrowing as at the 31 March 2022 being £63.9m.

12. Significant Assets & Liabilities

The Council has a strong Balance Sheet as at 31 March 2022 with the most significant Assets and Liabilities shown in the table below:

| On 31 March 2021 | Balance Sheet Extract | On 31 March 2022 |
|------------------------|---|------------------------|
| £millions | | £millions |
| 985.0 | Property, Plant & Equipment | 1,008.6 |
| 155.2 | Short Term Investments | 210.2 |
| 77.1 | Cash & Cash Equivalents (inc Overdraft) | 80.3 |
| -344.3 | Long term Borrowing | -344.0 |
| -39.9 | Long Term Liability - PFI/Lease | -38.7 |
| -993.6 | Long Term Liability - Pensions (IAS19) | -870.0 |
| 170.2 | Usable Reserves | 236.4 |
| -468.7 | Unusable Reserves | -325.9 |

Pension Liabilities

The Council has net future pension liabilities of £870m (£993.6m as at 31 March 2021) on an IAS19 basis. The Somerset County Pension Fund is formally valued every three years by an independent actuary to set future contribution rates. The most recent actuarial revaluation, as at 31 March 2019, assessed the funding level at 86% with a target funding level of 100%.

Additional contributions were agreed at this valuation to restore the Fund to a funding position of 100% by no later than 31 March 2039.

When the Pension Fund is in deficit, it generates an interest cost which would not occur if it were fully funded. The Council's decision to make increased deficit recovery payments in recent years has significantly reduced both the overall pension fund deficit and the total interest payable by the Council to the Pension Fund.

The Pension Fund's assets have continued to recover well past their pre-pandemic highs, increasing by £87.6m in year from £1,194.5m to £1,282.1m. The bond yield at 31 March 2022 was higher at all terms than at 31 March 2021, which has resulted in an increase in the discount rate used by the actuary to estimate the pension liabilities. This increase (along with other positive factors) has seen the overall liability fall by £36m from £2,188.1m to £2,152.1m.

The combined impact of the increased assets and reduced liability has seen the overall net liability fall by £123.6m in 2021/22.

Usable Reserves

On 31 March 2022, the Council had the following reserves available:

| On 31 March 2021 | Reserves | On 31 March 2022 |
|------------------------|---|------------------------|
| £millions | | £millions |
| | <u>Revenue - SCC</u> | |
| | <u>General Fund</u> | |
| 19.7 | General Reserves | 23.0 |
| 10.2 | Service Unearmarked Reserves | 4.1 |
| | <u>Earmarked Reserves</u> | |
| 10.1 | S31 Local Tax Income Guarantee Grant Reserve | 4.3 |
| 92.1 | Other revenue reserves which we have set aside | 161.2 |
| | <u>Capital - SCC</u> | |
| 9.9 | Capital reserves | 13.7 |
| 3.7 | Capital Grants/Contributions Unapplied Reserves | 3.6 |
| | <u>Revenue - Schools</u> | |
| 24.5 | Schools' carry-forward fund | 26.5 |
| <u>170.2</u> | | <u>236.4</u> |

The Spending Review on 25 November 2020 announced that the Government would compensate local authorities for 75% of irrecoverable losses in Council Tax and Business Rates income expected in 2020/21 (the 'local tax income guarantee') due to the COVID-19 pandemic.

This balance represents an estimation of the Authorities lost income payable under this guarantee, that was accrued during 20/21 and received in 2021/22.

Under current collection fund accounting rules, the S31 grant will not be fully discharged against the Collection Fund deficit until 2022/23. This reserve is therefore not actually available but earmarked against the following year's collection fund deficit that will be charged to the Council when it's transferred from the Collection Fund Adjustment Account in 2022/23.

This reserve has been disclosed separately from the other Earmarked Reserves to avoid overstating the Council's General Fund position. The General Fund Reserve has reduced by £2.8m since last year and represents 7.5% of the 2021/22 budget. The Council needs to continue to operate within very strict financial limits as the County recovers from the Covid-19 pandemic. The budget report presented to Council in February 2022 outlined that as Director of Finance my conclusion was that the levels of earmarked and non-earmarked reserves were adequate and reasonable in meeting the Council's risks.

13.COVID-19 Pandemic Response

The overarching aim for the Council when responding to the Covid-19 pandemic has been 'to save life, mitigate the impact of the incident, prevent further harm and return to the new normality as quickly as possible'.

The infection rates in Somerset have been kept among the lowest in the country (with 157,196 cases detected as at 31 March 2022). Somerset has led the development of local contact tracing in the Southwest and has provided significant support to the local NHS vaccination programme, to ensure vaccination reaches the most vulnerable / hardest to reach. The Council has managed, through tireless support to workplaces, care homes, schools, households, and communities to minimise spread (dealing with 7179 incidents between 1st April 2021 – 31st March 2022).

The Council's pandemic response was led by its Public Health Team, and some of the key achievements during 2021/22 were:

- a Weekly dashboard of Covid-19 data published to ensure our communities had information about the case rates to inform their own decision making
- writing and delivering the Local Outbreak Management Plan, which included the provision of preventative and reactive infection control advice to workplaces, care settings, schools and local events, and a very successful outbreak testing programme; and
- Between 1st April 2021 and 23rd February 2022, SCC staff identified the close contacts of 15,605 people with Covid-19. As a whole trace service (National Test & Trace, self-completion, and SCC) 92,746 cases have been contact traced. Consistently, Somerset has succeeded in reaching well over 80% of cases, which is the level at which contact tracing is deemed to be effective.
- Between January and May 2021 public health and other SCC staff led the development and running of 5 asymptomatic testing sites for our population.
- Between 1st April 2021 and 31st March 2022, a total of 3,174,800 LFD tests were undertaken on Somerset residents, through a mixture of local and national programmes. In total 4,621,100 Covid-19 tests have been undertaken on Somerset residents between 1st April 2021 -31st March 2022.

- Hundreds of Council staff being redeployed to work alongside the SCC Public health response team, including asymptomatic testing sites, NHS vaccination programme and local communities.
- Working with vulnerable groups to tackle inequality and support the vaccination programme, through delivery of an 'Access for All' programme.

These achievements also included:

- Over 3,700 residents have participated in public health consultations over the course of the pandemic, helping shape local work on a range of issues, from covid vaccinations and behaviours to health protection information for parents.
- Over 2,500 residents are signed up to receive public health news updates, including health protection guidance and information on local health issues.
- Utilising Facebook, Public Health messages have reached approximately 450,000 people, with approximately 8,500 link clicks.
- Coronavirus messaging has reached approximately 85,000 people and received more than 100,000 post engagements from Facebook audience.
- Over 12 months, PH 'Catch Up' Films have received 3,500 views on YouTube, with nearly 100 viewing hours, covering topics such as long-covid, vaccination updates, ICON, the Healthy Start Scheme, and heart health.
- Local radio stations played Public Health messages more than 40,000 times across Somerset as part of our Winter Covid-19 campaign.
- The Winter Covid-19 campaign reached over 1.4 million digital impressions and received over 5,000 click throughs through the Somerset Gazette. This might be people who are clicking to book their vaccine, order Lateral Flow Tests or get more information on a specific topic.

Financial Impact on the Council's 2020/21 Budgets

The impact of the pandemic has been mitigated by the support provided to local authorities by Central Government. The most considerable of these was the general Covid-19 support grant funding and the Infection control grant. During 2021/22, the Council recognised grant funding and NHS/Other Local Authority contributions of £44.2m to support the pandemic response, with an additional £5.9m of funding available from the unspent COVID support allocation received in advance in 2020/21.

The use of this funding was closely monitored to ensure the funding was only used to support the pandemic response and details of how the Council has used the additional funding has been regularly reported to Government through a series of returns.

During 2020/21, £50.4m was spent by the Council in its COVID response. The Council also reported a reduction in its budgeted Sales, Fees and Charges income of £1.2m as a direct result of the national lockdown restrictions (further details of the funding received and expenditure incurred during 2021/22 can be found in Note 2: COVID19 Pandemic Response).

As at 31st March 2022, the Council reported unspent COVID-19 funding of £5.1m. These unspent allocations have been carried forward to future years as earmarked reserves (£1m) and receipts in advance (£4.1m) to fund the on-going impact of the pandemic. This has meant that the

Council has been able to maintain a healthy level of reserves as at the end of this financial year. There were no material grants received by the Council during 2021/22 where the Council was acting as agent for the funding.

All the grant allocations payable to the Council during 2021/22 have been reported in the accounts.

14. Other Developments & Priorities

Future Funding

The 2021 comprehensive spending review (SR21) set out total funding for local government until 2024/25. The 2022/23 provisional local government finance settlement set out the distribution of that funding in 2022/23, but the UK government has not yet confirmed the distribution of funds in 2023/24 and 2024/25.

The government has also announced a delay to the Fair Funding Review (FFR) and Business Rates Retention reset (BRR), with the implementation not expected until April 2023 at the earliest. Council officers will continue to work with the Government on informing the approach to funding for the next financial year and beyond.

Local Government Reorganisation

Following consideration by both Houses of Parliament, the Secretary of State issued the Somerset Structural Changes Order 2022 on 17th March 2022 which paved the way for a new Somerset Council to be established on 1 April 2023.

The Order came into effect immediately and gave approval to the local elections on 5th May 22 for 110 councillors to the County Council and to the elections for city, town and parish councils across Somerset. It also handed responsibility for building the single unitary council to a new Implementation Executive, while setting the legal basis for the new council that will replace Somerset County Council and four district councils (Mendip, Sedgemoor, Somerset West and Taunton and South Somerset) on 1 April 2023.

From 1 April 2023, the 110 members of the unitary council will be responsible for services that are currently delivered by the county and four district councils, ranging from adults' and children's social care to highways and housing, and from libraries to planning and licensing.

The previous councillors officially stand down from their roles and handed over to the newly elected councillors at midnight on 9 May 22. The Full Council Annual General meeting on 25 May 22 appointed the Chair and Vice-Chair of the Council, the Leader of the Council, and the members of the various Council committees.

SCC has approved a budget of £6.9m for implementation costs in 2022/23 (£3.2m in 2021/22). A total of £16.5m has been outlined in the business case for one off transitional cost. The original business case estimated that the new Somerset Council would deliver a range of benefits including freeing-up a projected £18.5million every year after the first two years, from efficiencies and reduced duplication, to be invested in communities and high-quality public services.

The Statement of Accounts

The annual Statement of Accounts sets out a summary of our financial affairs for 2021/22 and shows our financial position as at 31 March 2022. It includes the following statements and accounts:

- Comprehensive Income and Expenditure Statement.
- Movement in Reserves Statement.
- Balance Sheet.
- Cash Flow statement.
- Pension fund accounts.

An explanation of each of these statements is included within the statement itself. We use some technical terms in these accounts, which we have explained in the Glossary.

Inspection and audit

The Government have reviewed and updated the timetable for the production and audit of accounts. The Council is required to produce and publish its accounts by 31 July so that they are available for public inspection (from 1 August 22 to 12 September 22) so that people who pay Council Tax and Business Rates, and other members of the public can ask the auditor any questions. This is a legal requirement, but my department will answer questions from anyone with an interest at any time

The Accounts and Audit (Amendment) Regulations 2021 came into force on 31 March 21, extending the statutory audit deadline for the publication of accounts relating to the 2020/21 and 2021/22 financial years from 31 July to 30 September. In light of ongoing delays and capacity issues nationally with local audit, the UK Government are planning, subject to consultation, to introduce secondary legislation to extend the deadline for publishing audited local authority accounts to 30 November 2022 for the 21/22 accounts.

The delay has arisen due to the complexity of the audit; the pace at which it can be completed, and the increased assurance work that audit are required to carry out nationally with respect to pensions and asset valuations.

These accounts will be approved by our Audit Committee on 24th November 2022.



Jason Vaughan FCCA, CPFA, IRRV (Hons)
Director of Finance & Governance
(Chief Financial Officer)

29 July 2022

Statement of Responsibilities

This section explains the Council's responsibilities for our financial affairs and how we make sure we carry out these responsibilities properly.

Somerset County 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 this Council, that officer is the Chief Financial Officer.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- Approve the Statement of Accounts.

The Chief Financial Officer's Responsibilities

The Chief Financial 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 Chief Financial Officer has:

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

The Chief Financial Officer has also:

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

The Chief Financial Officer's Declaration

This Statement of Accounts gives a true and fair view of the financial position of Somerset County Council as at 31 March 2022 and its income and spending for the year ending on that date.



**Jason Vaughan FCCA, CPFA, IRRV (Hons)
Director of Finance & Governance
(Chief Financial Officer)**

29 July 2022

Independent Auditor's Report

**to the Members of
Somerset County Council**

The audit report will appear here.

Independent Auditor's Report

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Annual Governance Statement

for year ended 31 March 2022



Foreword

“Somerset deserves the best services, opportunities and investment possible”

This is the Council’s stated purpose as contained in the Council Business Plan for 2021-23. The Plan sets out what we will do to achieve this, continuing to look for ways to improve services and, as far as possible, prioritising frontline services against a background of shrinking public sector finances while at the same time, planning for a sustainable future.

Effective corporate governance is essential to support the Council in meeting these challenges.

All who use our services and all who pay for them, together with our suppliers and partners, must be able to have confidence in our governance arrangements - that our ways of working enable us to provide the right services effectively and efficiently and on a consistent basis, and that we take informed, transparent, and lawful decisions. They must also be assured that we properly account for the money we receive and spend.

Resilience is a concern due to the complex situation for Local Government in Somerset where there is no longer “business as usual” as we transition from five existing councils in 2022 towards the new Somerset Council on 1 April 2023, support partnership responses to Covid 19 and strive to deliver key priorities and services at the same time.

While our corporate governance arrangements have been effective in supporting the Council through the exceptional last year globally, nationally, and locally together with the significant opportunities for Somerset through Local Government Reorganisation, we will ensure our arrangements remain effective in 2022-23 and into future years as we continue to meet our challenges.

As always, there are some opportunities for improvement which have been identified because of our monitoring and review arrangements. We will ensure that the necessary action is taken to address these.



**Pat Flaherty,
Chief Executive**



**Councillor Bill Revans,
Leader of the Council**



What is Corporate Governance?

Corporate governance refers to the processes by which organisations are led, directed, controlled, 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.

What this Statement tells you

This Statement describes the extent to which the Council has, for the year ended 31 March 2022, complied with its Governance Code and the requirements of the Accounts and Audit (England) Regulations 2015. It also describes how the effectiveness of the governance arrangements has been monitored and evaluated during the year and sets out any changes planned for the 2022-23 period.

The Statement has been prepared in accordance with guidance produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) called Bulletin 06 Application of the Good Governance Framework 2020/21 and the CIPFA and the Society of Local Authority Chief Executives and Senior Managers (SOLACE) - the 'Delivering Good Governance in Local Government Framework'. It embraces the elements of internal control required by the 'Code of Practice on Local Authority Accounting in the United Kingdom'.

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 control¹, and for reviewing the effectiveness of those arrangements.

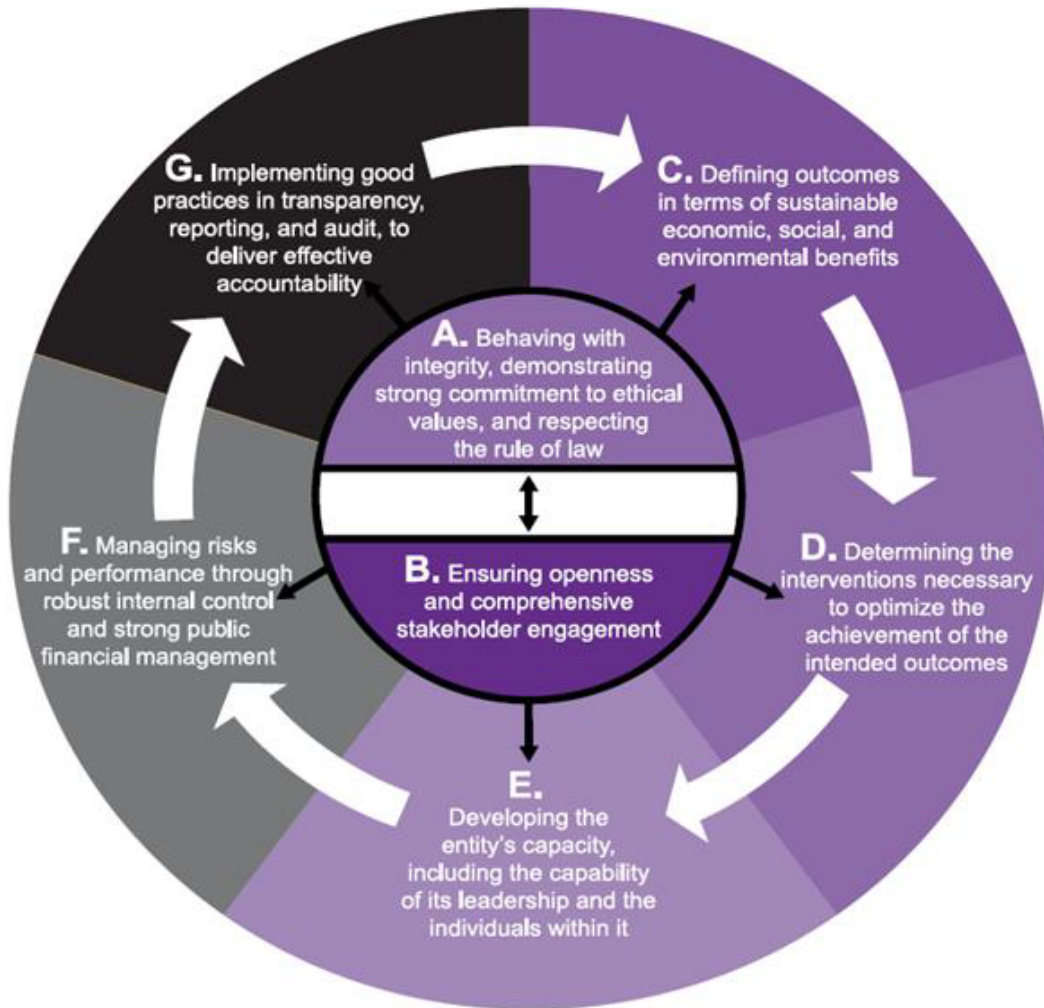
The Council's Governance Code, which was developed in accordance with the governance guidance produced by CIPFA and SOLACE, states the importance to the Council of good corporate governance and sets out its commitment to the principals involved. The Code is available from our website or can be obtained by request from the Monitoring Officer or Director of Finance.

Somerset County Council Governance Code (2017)

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

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

¹ A process to ensure that objectives will be achieved



The Governance Framework

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

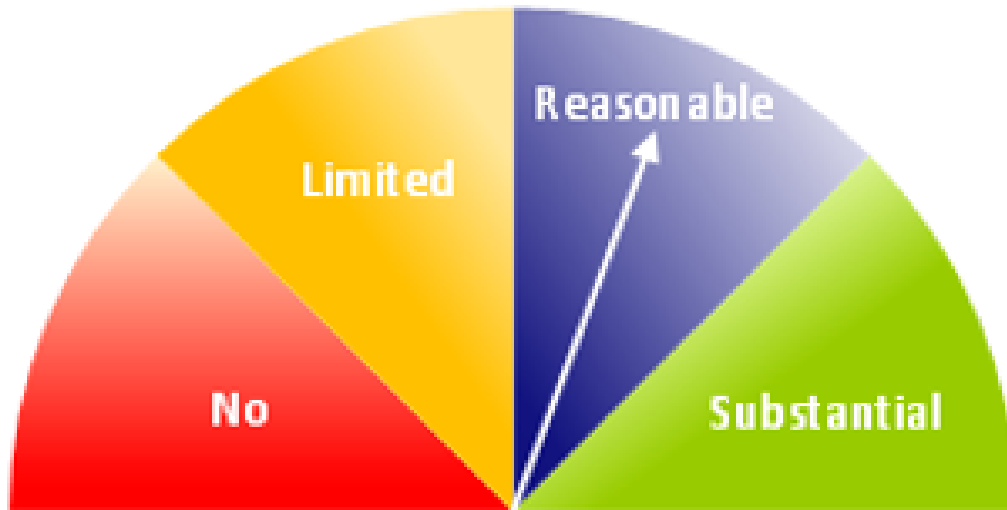
It enables us to monitor the achievement of our objectives and to consider whether these have led to the delivery of appropriate, cost-effective services. The Framework is summarised in the diagram overleaf.

As the Council improves the way it provides services, it is important that the governance arrangements remain robust but also flexible and proportionate.

To review the effectiveness of the governance framework, assurances are provided to, and challenged by, the Senior Leadership Team, the Audit Committee, Constitution & Standards Committee, Scrutiny Committees, the Cabinet or Council as appropriate.

The Healthy Organisation review by our internal auditors accredited the council in 2020/21 with a medium assurance. Despite the exceptional year with many challenges for public services, our internal auditors have confirmed continued improvement and assurance with our governance framework and systems. 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.

Our internal auditors, South West Audit Partnership, is able to offer Reasonable Assurance opinion and are broadly satisfied with management's approach to resolving identified issues.



The Senior Leadership Team is the Senior Officers body which brings together Directors responsible for commissioning, resources, support and customer services and service delivery. Some of the key elements of the governance framework are highlighted on the next pages.

Purpose: 'To ensure that Somerset and its people are supported and enabled to fulfil their potential, prosper and achieve a high standard of well-being'

Sources of Assurance

- Planning principles for services and Somerset Way of Working
- Constitution
- Strategic Leadership and Senior Management structures
- Medium Term Financial Strategy
- Financial Regs and Procedure Rules
- Contract Procedure Rules
- Commissioning Plans and Procurement Strategy
- Consultation Strategy
- Communications Plans
- Equality Plan
- Organisational Development and Workforce Policies and Plans
- Corporate Performance
- CIPFA FM Code
- Information Management policies
- ICT & Digital Strategy
- Health and Safety Policy
- Risk Management Policy
- Partnership Working
- Internal & External Audit and inspection
- Anti-Fraud and Corruption Policy and procedures
- Audit, Scrutiny and Constitution & Standards committees
- Codes of Conduct (Employees and Members)
- Whistleblowing Policy
- Performance Review and Development
- Complaints system

Assurances Received

- Statement of Accounts
- 'Focused on Our Performance' self-evaluation of progress against Council Plan
- External Audit and Inspection reporting
- Internal Audit reporting
- Risk and Control Registers and Risk Management Reporting
- Directors and Strategic Manager's internal control assurance
- Anti-fraud and corruption annual report
- Scrutiny Reviews
- Reviews commissioned by management
- Annual review of Constitution, Schemes of Delegation & Contract Procedures
- Peer Reviews
- Ongoing review by Governance Board of Corporate Governance and areas for improvement
- Governance Code and Framework review

Opportunities for Improvement

- Health & Safety
- Sustaining robust ICT infrastructure

Assurance Required on:

- Delivery of Council Plan
- Communication of performance
- Financial management
- Service quality and best use of resources
- Any failures in service delivery addressed effectively
- Councillors and Officers working together effectively
- Compliance with laws and regulations, policies and procedures
- High standards of conduct and behaviour
- Informed and transparent decision making
- Management of risk and effective internal controls
- Developing the capacity and capability of members and employees
- Democratic engagement and robust public accountability

GOVERNANCE FRAMEWORK

Governance Review & Assurance

Annual Governance Statement

The Council Business Plan

The Council Business Plan for 2021 – 2023 sets out our overall purpose - 'Somerset deserves the best services, opportunities and investment possible'. It helps us to focus our resources and drive improvement and sets out where we will focus our energies and our increasingly limited resources and how we will judge our performance.

The Plan sets out seven principles which we consider in the planning and delivery of services. The Plan is how the Council sets out how objectives will contribute to the goals for Somerset and how they will be achieved. Objectives and target outcomes are set within five overarching outcomes. Limited resources mean there is a need to be realistic about how much can be done. This means making difficult choices on where to focus resources so more can be done with less, and we can work with together with partners to do more.

Key to this are robust financial, commissioning, and decision-making processes, good quality data, good governance, performance management, effective technology, and a willingness to do things differently.

Evaluating Performance

The Council's Business Plan 2021-2023 was approved at Full Council in July 2021. The business plan is flexible enough to continue as the strategic direction for the authority until 31 March 2023. The Business Plan outlines how we will work with partners and communities to deliver the County Council's 'Vision for Somerset' in the most efficient way possible for Somerset's taxpayers. The Business Plan contains the strategic outcomes that show what the Council will focus on to deliver its Vision and improve lives. Beneath each strategic outcome sits the key priorities to deliver those outcomes and a range of associated activities. By lining up these activities, priorities, and strategic outcomes with the Vision the authority can plan ahead and monitor progress.

Performance is regularly reviewed by Directors and the Senior Leadership Team. Regular performance reports are presented to the Cabinet (following local elections in 2022 this is now the Executive) and available for review by scrutiny committees. An annual performance outturn report is reported to Cabinet.

Both our external and internal auditors assess the Council's arrangements for delivering continuous improvement and subsequent performance.

The Council's schools, education and training services are assessed by Ofsted on an ongoing schedule, and our social services are subject to ongoing review by the Care Quality Commission.

Social Media-Join The Conversation!

Join the conversation on all aspects of Somerset Council services and activities.

The Council provides its customers access to our services and information in the most appropriate Social Media channels.



Covid 19 – Governance

The impact of the coronavirus pandemic has been felt by all organisations in the UK and the Council is no exception, being a significant employer, service provider and community leader in the county. This section summarises the impacts on key areas of the Council's functions. It should be noted that while the Council has experienced significant disruption to its day-to-day operations, the review has highlighted the effectiveness of its governance arrangements in providing a robust foundation for its response to the pandemic and this continues. The Council maintains a strong focus on business continuity and emergency planning, including learning from experience of managing major incidents and participating in national and local planning exercises. The Council reviewed its business continuity arrangements as part of the ongoing uncertainty up to and following the UK's exit from the European Union.

There has been significant impact on pre-coronavirus ways of working and service delivery. This has included a move from office-based working to home working where possible, closure of public buildings and facilities such as libraries and recycling centres, temporary closure of services such as day care and re-enablement services. The Council moved rapidly to staff working at home where possible and refocused people management activity to address the challenges of new ways of working. ICT security requirements were strengthened as staff working at home moved to VPN infrastructure. Policies and procedures have been adapted to respond to changing needs. Some planned work has not progressed, including some planned internal audit work.

The Council is a Category 1 responder under the Civil Contingencies Act 2004 and has been an active and standing participant in the county's multi-agency response partnership (chaired by Avon & Somerset Police). A Multi-Agency tactical group chaired by the Council and with members drawn from all district councils, CCG and NHS, Fire, Police, Waste Board, and specific services including representatives from Children's services was held throughout the pandemic to coordinate the response across Somerset. Various "cells" were set up to ensure appropriate response was in place with the Council chairing a number of these including the Vulnerable People and Communities Cell that coordinated food, medical support and other help was on hand for those who needed it. The Council's contact centre took a role in pulling together a single point of contact for Somerset residents with the Coronavirus helpline that has taken a total of 13,000 calls. The Council was also represented on the Somerset Foundation Trust operated Somerset Vaccination Board. More than 1000 council staff volunteered to be part of the redeployment effort to support our communities and strategic partners. Around 500 staff were used in the end, running contact track and tracing operations, setting up vaccination hubs, running test sites, and working alongside community volunteers to ensure those shielding were fully supported.

Throughout the majority of 2021/22, the Senior Leadership Team met weekly to manage the council's emergency response, maintain delivery of core services and prioritise resources accordingly. Regular position statements and updates were provided to elected members and reported to Cabinet meetings and other committees, including the Member Engagement Board with partner representatives.

Assessment of financial impacts of coronavirus related costs have been regularly undertaken by the Section 151 Officer and reported to SLT and Cabinet meetings. Arrangements have been put in place to identify increased costs and lost income because of the coronavirus. There are robust monitoring arrangements in place with monthly reporting to DLUHC on the financial impact of the coronavirus. The Finance team has been working closely with Senior Managers in preparing the forecasts for DLUHC. The Director of Finance continues to closely monitor the impact of the pandemic on the Council's budget both in the current year and upon the Medium-Term Financial Plan. There is recognition that the impact

of the coronavirus can mean an ever-changing situation and the monthly financial reporting to Scrutiny and Cabinet have been effective in supporting the council through an exceptional year.

Assessment of the longer-term disruption and consequences arising from the coronavirus pandemic have been assessed as part of the Council's response and this will continue to inform the recovery phase and any future pandemic responses.

A Somerset Economic Recovery plan was developed with partners and agreed by all five local councils. Multi agency arrangements to manage the recovery phase are in progress. A new coronavirus Corporate Risk has been added to the Corporate Risk Register and it is anticipated that this risk will remain on the corporate register for some time, in the context of the prolonged nature of this incident and anticipated longer term disruption. Directors are updating service risk assessments as part of recovery work whilst also recognising that some services are still in the response phase. There were additional health and safety and ICT requirements which required ongoing reflection and review to ensure appropriate controls and measures were in place. Our focus as part of the recovery work is to ensure commissioned services remain fit for purpose; those markets are developed and procurement is refocused in alignment with the Council's future needs. This includes the likelihood of a long term need for significant procurement activity in relation to PPE in order to safeguard the Council's social care services and workforce.

Supporting Somerset's economy

Based on regional and national data, as well as local intelligence, it is likely that Somerset's economy would have shrunk by around 20% during 2020 because of COVID-19 restrictions on social and economic activities. Nationally GDP has now almost returned to pre-pandemic levels - latest estimates from Q4 2021 show UK GDP is now just 0.1% below where it was before the pandemic. Somerset has seen significant impacts on its labour market, though the most severe negative impacts were likely avoided because of Government employment support schemes, such as furlough, as well as other financial assistance for local businesses. Nevertheless, within Somerset, the number of individuals claiming out of work benefits had increased 126% from pre-pandemic levels during 2020. Whilst the number has fallen since, it still 26% above pre-pandemic levels in 2022.

Latest figures suggests that confidence amongst South West businesses is lower than the UK average, with current challenges expected to impact recovery and growth in the coming year. Businesses are facing difficulties over labour shortages and staff retention, with non-management skills availability and staff turnover the most widespread challenges in the region. Ongoing transport problems and rising global commodity prices mean that businesses are facing high input cost pressures. Over 95% of SME manufacturers in the South West (one of the largest contributing industries to economic output in Somerset) reported that inflation and commodity price increases are having a negative impact on their business.

In the coming 12 months, the economy is expected to continue recovering, although growing inflation and cost of living rises may act as a drag on growth. Meanwhile, staff shortages and employment challenges are expected to continue over the coming year, as the labour market remains tight.

SCC continues to play an economic leadership role for the county, working closely with a wide range of partners to support businesses, individuals, and communities. As an anchor institution in the local economy, SCC has recognised the importance of engaging with local contractors and suppliers, along with our role as a major Somerset employer. During the past year we have worked business organisations including the Somerset Chamber and the Federation of Small Businesses (FSB) to provide advice to small businesses in Somerset about doing business with SCC. Similarly, as an anchor employer, we seek to promote employment prospects and pathways to local people through mechanisms such as apprenticeships, a graduate recruitment programme and work placements.

As part of this leadership role in June 2021 SCC's cabinet approved the creation of a £6 million economic recovery fund to restart the economy and support action to facilitate longer term economic recovery from the Covid 19 pandemic. The fund has resourced several measures to assist individual businesses and sectors hard hit by Covid 19, encourage high growth potential businesses to expand and support less advantaged individuals find work and training. As an example, a restart fund provided grants to assist the reopening of anchor businesses, particularly in the visitor economy, which had not received significant support via central Government funding schemes. Businesses supported included the Bath and West Society and the West Somerset Railway.

SCC has also been able to leverage significant external funding to support aspects of the Somerset economic recovery and growth plan during the past year. Examples include securing the fifth largest allocation across England's shire counties from the Government's Community Renewal Fund,

securing funds from DWP for skills bootcamps and from the Nuclear Decommissioning Authority to sustain the Somerset Education Business Partnership and its critical work to raise employment aspiration among young people in Somerset.

Alongside recovery from the impacts of Covid 19 on Somerset's economy Somerset County Council has continued to focus in the past year on the longer-term issues and opportunities for the Somerset economy that pre-dated the pandemic. These include raising the productivity of the local economy, transition to a zero-carbon economy and changing workforce and skills requirements. We have completed the construction of the iAero Centre in Yeovil and commenced construction of the Digital Innovation Centre in Taunton – developments funded by SCC and Government funds secured via the Heart of the Southwest Local Enterprise Partnership (LEP). During the past year significant work has been undertaken with the LEP, Sedgemoor District Council and the site developer to progress plans for the development of the Gravity Enterprise Zone near Bridgwater. The partners are also working closely with Government to pursue strategically significant inward investment leads for the site, linked to net zero industry sectors.

Safeguarding vulnerable adults and children

Safeguarding Adults

Safeguarding means protecting an adult's right to live in safety, free from abuse and neglect. It is about people and organisations working together to prevent and stop both the risks and experience of abuse or neglect, whilst at the same time making sure that the adult's wellbeing is promoted.

The aims of adult safeguarding are to:

- Prevent harm and reduce the risk of abuse or neglect to adults with care and support needs
- Stop abuse or neglect wherever possible
- Safeguard adults in a way that supports them in making choices and having control about how they want to live

The Somerset Safeguarding Adults Board (SSAB) is a multi-agency partnership, independently chaired, which became statutory under the Care Act 2014 from 1st April 2015. The role of the Board is to assure itself that local safeguarding arrangements and partner organisations act to help and protect adults in its area.

The Boards' main objective is to assure itself that local safeguarding arrangements and partner organisations act to help and protect people aged 18 and over in the area who:

- have needs for care and support; and
- are experiencing, or at risk of, abuse or neglect; and
- as a result of their care and support needs) are unable to protect themselves from either the risk of, or experience of, abuse or neglect.

The Board has a strategic role that is greater than the sum of the operational duties of the core partners, overseeing and leading adult safeguarding across the county and interested in a range of matters contributing to the prevention of abuse and neglect. The Board does not work in isolation, nor is it solely responsible for all safeguarding arrangements. The Board's website, newsletter and social media promotes local adult safeguarding policy, practice and resources:

Somerset County Council has the lead role for adult safeguarding in Somerset, which it primarily discharges through its dedicated Adult Safeguarding Service. Somerset is seeing a declining rate of safeguarding contacts (contrary to national trends), and fewer enquiries being undertaken as a result. Analysis suggests this is a result of the significant work that has been undertaken by the service, the SSAB and Somerset Direct over many years to improve understanding of safeguarding criteria and reduce/re-direct the previously high numbers of inappropriate safeguarding contacts, but will be subject to close monitoring. Contacts are highest from care providers, the ambulance service and Police. The number of safeguarding concerns raised with SCC in 2021/22 was **2,265**. Of these concerns, **627 (28%)** progressed to a Statutory Section 42 Safeguarding Enquiry whilst the remaining contacts would have received a different outcome - this could have been a quality assurance response, an assessment of needs or a review by another team, for example. In 2021/22, where a risk was identified, in **97%** of cases the risk was reduced or removed. **In 99% of cases where desired outcomes were stated, they were either fully or partially achieved.** Each year, the Local Authority submits a statutory return as part of the

Safeguarding Adults Collection (SAC) which records details about safeguarding activity for adults aged 18 and over in England, reported to, or identified by, Councils with Adult Social Services Responsibilities, the collection includes demographic information about the adults at risk and details of the incidents that have been alleged.

To provide governance and oversight of the standard of practice in the Service, performance monitoring and quality assurance activity is undertaken both internally and as part of the SSAB's multi-agency Performance and Quality subgroup. 'Listening and Learning' is a key overarching Strategic Plan priority for the SSAB, and places specific emphasis on the need to encourage and actively seek feedback from people who experience adult safeguarding, as well as their relative/carers and advocates. The Board continues to secure very valuable feedback direct from service users, carers and advocates via its safeguarding questionnaires. Satisfaction levels are currently highest from service users followed by IMCAs/Advocates. We are exploring opportunities to enhance the experience of friends/relatives/carers in safeguarding activity, particularly where younger adults are involved as part of transitional safeguarding. SSAB Effectiveness Surveys are undertaken regularly as part of routine performance and quality assurance framework arrangements and to support the Board's continuous improvement. We anticipate 'Ensuring Safety' to be a key themes and lines of enquiry to inform the new assurance activity anticipated to commence from April 2023 in relation to the delivery of the Local Authority's statutory duties relating to adults.

Safeguarding Children

Somerset Safeguarding Children's Partnership (SSCP)

The new safeguarding arrangements for children set out in 'Working Together to Safeguard Children (2018)' took effect in September 2019. The safeguarding lead responsibility is now shared between the three statutory partners: Somerset County Council, Avon and Somerset Constabulary, and Somerset Clinical Commissioning Group with a strong commitment to shared and equitable leadership of the new arrangements. A Youth Forum has also been established to enable young people to hold the three statutory partners to account during an annual conversation.

This year there has been a continued focus on the four priorities of early help, multi-agency safeguarding, neglect as well as child exploitation. The SSCP is consolidating what is working well, and addressing areas needing further improvement to ensure that the partnership is effective as possible in safeguarding children. There has been a national and local focus on the identification of vulnerabilities in the pre-birth and post-natal period, as well as a focus on adolescents with complex circumstances and needs. [Out of routine: A review of sudden unexpected death in infancy (SUDI)].

The Somerset Safeguarding Children Partnership has also been pleased to confirm the appointment of an Independent Scrutineer, effective as of January 2020, who has supported the partnership's activities over the last year, particularly during the challenging lockdown periods.

There is regional activity across the Avon and Somerset Constabulary area to support provision of wider independent scrutiny. It is planned to develop a pool of scrutineers across the region and develop regional approaches to common concerns such as County Lines activity.

Multi agency audits have continued across the partnership where areas that need to be tested arise. In addition, the partnership has invested in a post to support data collection and analysis to support the scrutiny and assurance function of the partnership. The statutory Section 11 audit of the efficacy of safeguarding arrangements within partner agencies was completed at the end of 2021 with no significant concerns. The findings will be tested during 2022-2023.

The Somerset Safeguarding Children Partnership has commissioned two local Child Safeguarding Practice Reviews in response to serious incident notifications. The changes required following the learning from these reviews have already been implemented.

Details of the SSCP Structure chart are available on request.

Corporate Parenting Board

To thrive, children and young people have certain key needs that good parents generally meet. The corporate parenting principles set out Seven Principles (identified in section 1 of the Children and Social Work Act 2017) that local authorities must have regard to when exercising their functions in relation to looked after children and young people.

The role of the Somerset Corporate Parenting Board is to ensure that Somerset County Council, together with the four District Councils, fulfil their duties towards children looked after (CLA), corporately and in partnership with other statutory agencies, including the NHS and Police. The existing Corporate Parenting Strategy and Terms of Reference (TOR), including membership, of the Corporate Parenting Board were agreed by Council in 2017.

The focus of the Corporate Parenting Board is on the delivery of five priorities covering placement sufficiency and stability, education, health, voice of the child and leaving care through well-established sub-groups with good cross agency working, led by a senior officer, and supported by a Councillor from the Board. Additionally, the key area of foster carer development is led by the council's fostering service. Action owners on the groups take responsibility for issues to deliver solutions within deadlines.

These priorities are monitored through the Corporate Parenting Board annual action plan and reported on quarterly. The Annual Report is received at Full Council. Highlights of improvements and progress for 2021/22 as follows:

- Improved performance through the new Health dashboard
- Improved communications around quality and timeliness of Initial Health Assessments (IHAs)
- Increased area provision for IHAs and Adoption Medical Reviews

Special Educational Needs and Disabilities (SEND)

Following the OFSTED/ CQC SEND local area inspection in March 2020, Somerset was required to produce a joint Written Statement of Action (WSOA) for SEND which was approved on 1st December 2020. The full WSOA is available on the Local Offer website. It is highly ambitious but must be to address

the shortcomings in the system and to improve the offer for children and young people with SEND, and their families. Somerset County Council shares responsibility for delivering the Written Statement of Action with NHS Somerset CCG.

The WSoA is monitored monthly through the SEND Improvement Board (SIB) comprising members from across the local area as well as representatives from the Department for Education and NHS England. The Board is co-chaired by the Chief Executives from SCC and NHS Somerset. Terms of reference and monitoring reports presented to the SIB are published on the Local Offer website.

The WSoA contains nine Improvement Priority (IP) areas linked to the nine areas of weakness identified. Each IP area has a responsible lead from different parts of the system who reports on the progress of their area and any linked work cutting across the WSoA.

A cycle of four quarterly monitoring “visits” from DfE and NHSE advisers was completed, with the last monitoring visit in January 2022. Throughout advisers have reported that in spite of challenges raised by the pandemic and wider changes within the system, the area has continued to make progress in delivering the written statement of action.

In September 2021 the SEND Strategic Partnership Board was set up. This meets monthly and is responsible for bringing partners together across the Somerset SEND system to plan, monitor local area performance and agree priorities. The Partnership Board is responsible for developing and overseeing Somerset’s new SEND Strategy, which will go through a formal consultation process in autumn 2022, before being published early in 2023. An annual report on SEND is provided to the Health and Wellbeing Board.

There have been eleven SIB meetings since the inspection. The Board continues to reflect on the lived experience of young people and families and provide challenge to the Programme in ensuring this is used to inform planning for improvement. The Board also receives regular reports from member providers who share their perspective on improvement progress and current challenges – latest reports reflect better communications across the partners and early signs that services are beginning to work together better as a system.

The Children’s Executive Group continues to meet regularly to provide direction, support and challenge to priority leads, acting as the point of escalation for resolving partnership delivery challenges, and is supporting better joint commissioning for the local area.

The local area has recently commissioned a peer challenge from the Local Government association, to review the progress that has been made in relation to SEND since March 2020 and the impact of the pandemic on the Somerset SEND system. Feedback from the peer challenge identified notable areas of progress, both in the culture and working relationships between organisations, as well as improvements in service development and delivery, in relation to education, health and care plans, autism and the graduated response to SEND.

Local Government Reorganisation

In July 2021 the Secretary of State approved the implementation on Local Government Reorganisation in Somerset, which will see the creation of a single unitary authority for Somerset in place of the current 2 tier system. The new authority will come into existence on 1st April 2023, this is known as "Vesting Day."

Delivery of the programme is structured around a Programme Board made up of the 5 council Chief Executives, and the County Council Monitoring Officer and Section 151 officer. A Programme Steering Group acts as design authority for the programme on behalf of the 6 workstreams delivering the approximately 700 distinct products that make up the programme, broken down over 3 Tranches based on priority and timing. Over 450 individuals are now part of the programme including PwC who act as Quality Assurance partner for the programme. An Implementation Executive acts as the political leadership of the programme.

Two legal mechanisms – Structural Changes Order and Section 24 notice – provide a legal foundation for delivering the new authority, in terms of governance and ensuring robust financial management during the transition.

During 2021/22, the five councils established a Local Government Reorganisation Joint Committee and a Joint Scrutiny Committee to provide leadership and oversight for this complex programme. Now that the May 2022 Elections have taken place, work is under way with the new Executive and an Implementation Board to oversee delivery of the LGR Implementation Plan (a requirement of the Structural Changes Order). A LGR Joint Scrutiny Committee has been re-established to also provide overview and scrutiny and support for the programme.

Programme Management revolves around SharePoint-based systems for risk and issues management, benefits realisation, monthly assurance reporting, change control and other programme management systems that would be expected on a programme of this size, including culture and readying people for change.

Management of Risk

The management of risk is vital for the Council to achieve the objectives set out in the County Plan. Risk management is an integral part of good governance which the Council is committed to. The management of a risk pathway policy document provides a systematic approach that enables the Council to manage uncertainties within in a framework that is uniformed, guided and supportive.

It involves an ongoing process to identify risks, assign ownership and the identification of controls to manage risks to an acceptable level.

The Council's strategic risks are identified by senior management with the support of the risk manager. These, together with the significant risks to planning and delivering services, are recorded in the Council's risk management system.

The strategic risks are regularly reviewed by the risk manager, senior management and by Audit Committee who seek assurance that, as far as reasonably practical, the controls mitigate the risks efficiently, effectively, and economically. Strategic Risk Management Group also review the Strategic risks at least once a year to support the risk owner and escalate if required.

Risk implications in decision making are the responsibility of those requesting change and those approving the decisions. Considerations and mitigations of the risks are required to be acknowledged in the relevant documents to ensure that the Council's financial, legal and moral commitments are met.

The Covid-19 pandemic of 2020, saw additional risks identified across the whole of the Council. As the Council and the whole Somerset area continue to recover or where service need and delivery has changed some of these additional risks continue.

Specific risks and mitigations associated to the delivery of the single unitary authority for Somerset are recorded and managed directly as part of the programme delivery Board.

Strategic Risks 2021/22

- Safeguarding Children - The Council fails to deliver its statutory service delivery duties and legal obligations in relation to vulnerable children.
- Market management, development, and monitoring of supply chains - Markets do not provide optimum value for money and income generation.
- Organisational Resilience - Without the minimum level of capacity and resource, the resilience of the organisation is compromised.
- Climate change - The Council fails to take action to mitigate and adapt to Climate Change.
- Supplier disruption - across all services in demand and sustainability of supplier financial standing.
- Sustainable Medium Term Financial Plan- The ability to set future balanced budgets and build resilience through reserves to be able to deliver the Councils priorities.
- Local Government Reorganisation – does not deliver a single unitary authority for Vesting day on 1st April 2023.
- Adult Social Care failure – The Council is unable to meet statutory obligations in relation to care provider market sufficiency and capacity

Decision Making and Responsibilities

During 2021/22, the Council consisted of 55 elected with a Cabinet of Lead Members who are supported and held to account by three Scrutiny Committees and the Audit Committee. Following the May 2022 election the Council now has 110 elected Members.

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.

It is updated annually to take account of changing circumstances, legislative changes, and business needs.

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

Equality

The Council is committed to delivering equality and improving the quality of life for the people of Somerset. Our statutory Equalities Objectives help us understand and prioritise work for those who may be vulnerable to discrimination.

Any new, changed or stopping Council policy, proposal or service must be subjected to a consideration of Due Regard to the Public Sector Equality Duty, this is recorded in an Equality Impact Assessment to ensure that equality issues have been consciously considered throughout the decision-making processes and life of the policy or service.

Open Policy and Decision-making

Whilst regulations permitted, all Council meetings could be viewed live as part of the Council's virtual meetings. Work was undertaken during 2021 to provide a hybrid meeting solution and facilitate webcasting.

Meetings of the Council are open to the public except where exempt or confidential matters are being discussed, and all reports considered and the minutes of decisions taken are, unless confidential, made available on the Council's website.

The Council's Forward Work Programmes contain information about all matters that are likely to be the subject of a decision taken by the full Council or the Cabinet during the forthcoming four-month period. Proposed key decisions for Cabinet Members and Officers are also publicised in advance and when they are taken. We publish information about matters to be considered by Scrutiny Committees.



Financial Management

The Director of Finance is responsible for the proper administration of the Council's financial affairs, as required by Section 151 of the Local Government Act 1972, and our financial management arrangements are compliant with the governance requirements set out in the Chartered Institute of Public Finance and Accountancy's 'Statement on the Role of the Chief Financial Officer in Local Government' (2016).

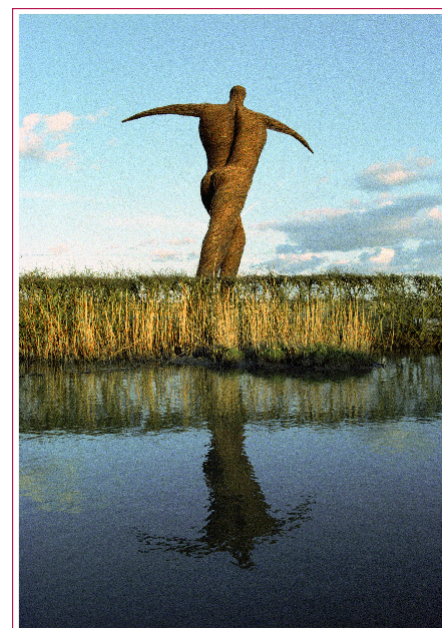
There are robust arrangements for effective financial control through our accounting procedures, key financial systems and the Financial Regulations. These have reviewed and assessed against the new CIPFA Financial Management Code with improvements forming part of an action plan. The continued improvements in our Financial Management arrangements have been recognised by SWAP Ltd as part of their review of the Healthy Organisation with an improved rating from Amber to Green.

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 and are reported to Audit Committee, Executive and the Council.

The Medium-Term Financial Plan sets out the Council's strategic approach to the management of its finances and outlines some of the financial issues that we will face over the next three years. This Plan is subject to review by the Scrutiny Committees and Cabinet ahead of approval by the Council every February.

The Reserves Strategy enables the Council to meet its statutory requirements and sets out the different types of reserve, how they may be used and the monitoring arrangements.

Despite our established success in balancing budgets and maintaining tight financial control to avoid overspending, like many councils, the Council faces the challenge of designing a sustainable budget for the future. This in the main caused by increasing demand for services combined with reductions to local government funding. In February 2021, we set a balanced budget for 2021/22 and forecasted a funding shortfall of £12.4m for 2022/23 and £5.6m for the following year. We are focusing a large part of our Transformation Programme on Local Government Reorganisation given its impact on services and finances. We are continuing our Transformation work to improve efficiency and reshape our people services whilst maintaining our commitment to the most vulnerable.



There is robust monthly budget monitoring process, which is reported to SLT, Scrutiny Place and Cabinet. With the outturn forming part of the Statement of Accounts which is report to the Audit Committee. The monthly budget monitoring reports have included updates on the various Covid funding streams from Government and allocations of the Covid 19 Emergency Fund during the year.

Commissioning and Procurement of Goods and Services

The Council is a commissioning organisation, and its senior officer structure clearly reflects that approach with Lead Commissioners. An officer Strategic Commissioning Group (SCG) is in place to oversee commissioning activity, the group is attended by key commissioning specialists and key officers from business partner services. The SCG reviews all proposals for new strategic projects, including new contracts, scrutinising and managing Commissioning Gateway activity with a strong focus on financial savings, accountability, evidence led commissioning and delivery outcomes.

The Council values collaboration with service users, communities, businesses, and key public sector partners in order to understand the needs and outcomes required through the commissioning process.

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.

Our Commissioning Plans and Procurement Strategy set out the vision and direction for commissioning, procurement, and contract management across the Council.

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

Managing Information

To set a direction for the effective governance, efficient management and use of information and data under its control, the Council's Information Management Strategy explains how we will deal with the creation, storage, access, protection and lifecycle of information and data.

Information is central to the Council and its decision-making processes, and it therefore needs to be accurate and accessible to those who need it at the time and place that is required. The Council also recognises that it has a responsibility to safeguard the information it holds and to manage it with care and accountability.

We have systems and assurance in place to ensure we meet our requirements in terms of Freedom of Information and the General Data Protection Regulations.

Freedom of Information

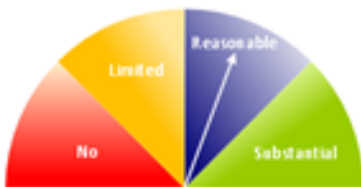
Details of how to access information held by the Council and its Freedom of Information Policy are available on the Council's website.

Audit and Assurances

The Council is externally audited by its External Auditors. Their annual audit includes examining and certifying whether the financial statements are 'true and fair', and assessing our arrangements for securing economy, efficiency, and effectiveness in the use of resources. Our external auditors provide regular updates to the Audit Committee. In 2021 the External Auditor gave an unqualified audit opinion on the Council's Statement of Accounts.

The Internal Audit Service is a key means of assurance. It provides an independent and objective opinion on the Council's governance, risk management and internal control environment by evaluating its effectiveness. Work is managed and delivered in accordance with the Public Sector Internal Audit Standards (PSIAS).

Each year a risk-assessed work plan is produced and updated as the year progresses to ensure appropriate coverage of the Authority's key corporate objectives and risks. The Audit Committee approve the Internal Audit Plan and accompanying Charter which outlines the role and scope of internal audit. Our internal auditors provide regular updates to the Audit Committee.



The Head of Internal Audit's annual opinion as to the effectiveness of the Council's internal control environment for 2020-21 was:

"There is generally a sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievements of objectives"

- Medium risk rated weakness identified in individual audit engagements
- Isolated high risk rated weaknesses identified for isolated issues
- No critical risk rated weakness were identified

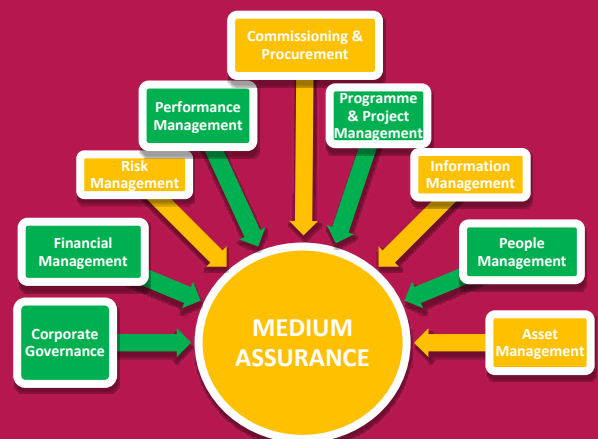
The Healthy Organisation review was a key source of assurance with an overall medium rating given. This report states that there was no evidence of any significant adverse impact of the pandemic on the overarching control framework, with an improvement seen in Financial Management which moved from 'amber' to 'green'.

The **Audit Committee** provides independent assurance on the Council's internal control environment. It is a statutory requirement and consists of 13 Councillors and 1 independent person.

Its main functions include:

- Agreeing the Annual Governance Statement and the Annual Statement of Accounts,
- Overseeing Internal Audit's independence, objectivity, performance and professionalism and supporting the effectiveness of Internal Audit
- Considering Internal Audit partial assurance reports and management responses
- Considering the effectiveness of Risk Management, including the risks of bribery, fraud and corruption
- Monitor the effectiveness of value for money arrangements
- Considering the reports of External Auditors and Inspectors.

The Audit Committee reports annually to the Council as part of its assurance.



Conduct

Our Codes of Conduct for Members and for Employees set out the standards of conduct and behaviour that are required. They are regularly reviewed and updated as necessary and both groups are regularly reminded of the requirements. Both Codes are published on the Council's website for transparency and accountability. Our website tells you how you can report a conduct complaint.

These include the need for Members and Officers to register personal interests and the requirement for registering offers or acceptance of gifts and hospitality, outside commitments and personal interests.

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 how to raise concerns about activities in the workplace. Full details are provided on the Council's website.

Anti-Fraud and Corruption

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

There is little evidence that the *incidence* of fraud is currently a major issue for the Council, but the *risk* is increasing nationally. We therefore regularly assess how vulnerable our services are to fraud and corruption risks and we update our counter fraud arrangements accordingly.

The Council reviews its Anti-Fraud and Corruption Policy on an annual basis and has adopted a 'zero tolerance' in relation to fraud and corruption. Our policy sets out what we will do to maintain this commitment considering the risk

The results of our risk-based Anti-Fraud approach are reported annually to the Audit Committee, and the resources available for investigation are subject to ongoing review to ensure that they remain appropriate to the risk of fraud.

Our website tells you how you can report suspected fraud against the Council.

The Nolan Principles for conduct and behaviour:

- **Selflessness**
- **Integrity**
- **Objectivity**
- **Accountability**
- **Openness**
- **Honesty**
- **Leadership**

'zero tolerance'

Whenever the Council identifies instances of fraud, bribery, or corruption against it, it will always take legal and / or disciplinary action against the perpetrator and seek recovery and redress.

Improving Governance

The progress made during 2021-22 on the significant issues identified in our 2020-21 Annual Governance Statement is shown below:

| | |
|---|--|
| <p>1. Financial position</p> | <p>We continued to develop a sustainable Medium Term Financial Plan and set a balanced budget that was approved by Council in February 2022.</p> <p>This process was enabled by robust frequent financial reporting reports to Cabinet and Scrutiny meetings.</p> |
| <p>2. Local Government Reorganisation Supporting the transition to unitary local government for Somerset.</p> | <p>Following the Secretary of State's decision during 2021, we have put in place the necessary resources, programme management, partnership, and democratic arrangements to support the transition to unitary form of local government in partnership with district councils and other public sector partners including the 278 town and parish councils. We worked with Government to get approval to the Somerset Structural Changes Order in March 2022. We planned and delivered the Council elections in May 2022 with the election of 110 members.</p> |
| <p>3. Covid 19</p> <p>We have worked with national and local agencies such as the Government, Police, NHS, district councils, voluntary organisations and service providers to ensure essential services were delivered to support vulnerable children and adults, local communities and businesses throughout the Covid 19 pandemic.</p> <p>We support the delivery of the Economic Recovery Plans.</p> | <p>As Coronavirus has progressed more towards an endemic disease we have continued to work as part of the regional and national public health system, aiming to minimise infection rates and manage outbreaks and clusters. As the needs of the Somerset population have changed following the pandemic and we will continue to assess and have plans in place.</p> <p>The recovery phase has begun and will focus on minimising the indirect impacts of COVID, addressing the health and social inequalities that the pandemic has highlighted.</p> |

2. Integrated Care System

We have worked with key strategic partners to develop the ICS system in line with the emerging changing legislation and as such we have continued to actively engage with NHSE in the work to develop appropriate local governance of the partnership, joint working and joint funding elements of the ICS development and to ensure adequate transparency and scrutiny. This work has been captured within the established programme of activity.

Based on our review of the governance framework, the following significant issues will be addressed in 2022-23:

| | |
|--|--|
| <p>1. Financial Position (See previous page)</p> | <p>Development of a balanced budget for 2023/24 and a sustainable Medium Term Financial Plan for consideration by Council in February 2023 ahead of the establishment of the new Somerset Council.</p> <p>Recognise and plan for the financial implications arising from inflationary pressures, meeting demands, rising costs and also local government reform in Somerset.</p> |
| <p>2. Local Government Reorganisation</p> <p>Support the transition to unitary form of local government for unitary local government for Somerset by 1 April 2023.</p> | <p>Work will need to continue, in partnership with our District Council colleagues and other public sector partners including the 278 town and parish councils to put in place the necessary resources, programme management, partnership and democratic arrangements to support the transition to unitary form of local government. This will include all necessary work to ensure the new Somerset Council is ready from 1 April 2023 to assume the responsibilities and services delivered by the 5 current councils in Somerset.</p> |
| <p>3. Covid 19</p> <p>Working with national and local agencies such as the Government, Police, NHS, district councils, voluntary organisations and service providers to ensure essential services continue to be delivered to support vulnerable children and adults, local communities and businesses throughout the Covid 19 emergency.</p> <p>Support the delivery of the Economic Recovery Plans.</p> | <p>As Coronavirus progresses more towards an endemic disease we will continue to work as part of the regional and national public health system, aiming to minimise infection rates and manage outbreaks and clusters. The needs of the Somerset population has changed following the pandemic and these will need to continue to be assessed and be central to the focus of the organisation.</p> <p>The recovery will be long and needs to focus on minimising the indirect impacts of COVID, addressing the health and social inequalities that the pandemic has highlighted.</p> |
| <p>4. Integrated Care System</p> | <p>The work to develop the ICS system in line with the emerging changing legislation will require implementation in 2022. As such we will actively engage with NHSE in the work to develop appropriate local governance of the partnership, joint working and joint funding elements of the ICS development and to ensure adequate transparency and scrutiny. All work currently captured within established programme of activity.</p> |

| | |
|---|--|
| <p>5.SEND Improvement Plan</p> | <p>We will review current partnership arrangements to ensure these are effective in supporting joint decision making and joint commissioning.</p> <p>Review local area governance to ensure alignment with emerging arrangements for Integrated Care Systems and Local Government Reform.</p> |
| <p>6.Organisational capacity and resilience</p> <p>A significant risk facing all five councils in Somerset is organisational capacity along with recruitment and retention challenges in order to maintain services, deliver projects and priority programmes such as Local Government Reorganisation. Resilience is a concern due to the complex situation for Local Government in Somerset where there is no longer "business as usual" as we transition from five existing councils in 2022 towards the new Somerset Council on 1 April 2023, support partnership responses to Covid 19 and strive to deliver key priorities and services at the same time.</p> | <p>We will continue to review and take management action as appropriate. There is regular oversight and review of mitigations by SLT and the Executive. There is regular review of business continuity and civil contingencies partnership arrangements. Regular budget and performance monitoring reports are considered by Scrutiny Committees and the Executive. A recruitment protocol has been put in place across the five councils to support the retention of staff and maximise opportunities whilst enabling the five councils to support each other during the transition to one council.</p> |

These issues will be supported by an action plan, progress on which will be monitored during 2022-23 by the Governance Board and the Senior Leadership Team. Oversight, constructive challenge and review will be available from the Executive, Scrutiny Committees and the Audit Committee.

The new Somerset County Council may make changes to the Council's governance framework, and we will continue to review and adapt it so that it continues to support the new Somerset Council in meeting its challenge and in fulfilling its purpose, and ensure that the framework remains proportionate to the risks that are faced.

We will also continue to raise awareness of the Governance Framework and its requirements with employees across the Council, in schools and with elected Members.

Assurance

Subject to the above issues being resolved, we can provide an overall assurance that Somerset County Council's governance arrangements are effective and remain fit for purpose.



Signed: _____ Date: July 2022
(Patrick Flaherty, Chief Executive)



Signed: _____ Date: July 2022
(Cllr Bill Revans, Leader of the Council)

Contact Officers: Scott Wooldridge, Monitoring Officer and Jason Vaughan, Director of Finance



Statement of Accounting Policies

This section summarises the accounting rules and conventions the Council has used in preparing these accounts.

1 General

The Statement of Accounts summarises the Council's transactions for the 2021/22 financial year and its position at the year-end of 31 March 2022. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those Regulations require to be prepared in accordance with proper accounting practices. These practices under Section 21 of the Local Government Act 2003 primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the 2003 Act.

The Accounts and Audit (Amendment) Regulations 2021 came into force on 31 March 21, extending the statutory audit deadline for the publication of accounts relating to the 2020/21 and 2021/22 financial years from 31 July to 30 September.

In light of the ongoing delays and capacity issues nationally with local audit, The UK Govt is planning, subject to consultation, to introduce secondary legislation to extend the deadline for publishing audited local authority accounts to 30 November 2022 for the 21/22 accounts.

The Statement of Accounts has been prepared on a 'going concern' basis. 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.

2 The difference between Capital and Revenue

Revenue spending is made up of payments to employees and other day-to-day running expenses whereas the Council classes spend to buy assets, for example buildings, equipment and vehicles, as capital spending.

3 Accruals of Income and Expenditure

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

- Revenue from contracts with service recipients, whether for goods or the provision of services, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract. Where no performance obligations exist any fees, charges and rents due from customers are accounted for as income at the date the Council provides the goods or services.

- Supplies are recorded as expenditure when they are used. Where there is a gap between the date supplies are received and their use and the values are assessed as significant, they are carried as inventory on the Balance Sheet.
- Interest payable on borrowings or receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument, rather than the cash flows fixed or determined by the contract.
- 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.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor entry for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and an impairment charge made for the income that might not be collected; and
- To ensure a timely closure of accounts, the Council has applied a minimum accrual limit of £5,000.

4 Cash and Cash Equivalents

Cash and cash equivalents include cash balances, bank overdrafts and short-term investments with an initial maturity period of less than 3 months. Cash Equivalents are highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value.

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.

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

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

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

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

6 Presentation of Items in Other Comprehensive Income and Expenditure

Items listed in Other Comprehensive Income and Expenditure must be grouped (if applicable) into those items that:

- a) Will not be reclassified subsequently to the Surplus or Deficit on the Provision of Services; and
- b) Will be reclassified subsequently to the Surplus or Deficit on the Provision of Services when specific conditions are met.

7 Charges to Revenue for Using 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 or impairment losses on assets used by the service with no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- Amortisation of intangible fixed assets attributable to the service.
- Lease rentals directly 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 (MRP or loans fund principal), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

8 Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits 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 paid leave) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

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

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the 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 eligible to be a member of either:

- 1) The Teachers' Pension Scheme, administered by Teachers Pensions on behalf of the Department for Education (DfE);
- 2) The Local Government Pension Scheme, administered by Somerset County Council; and
- 3) The NHS Pension Scheme administered by the NHS Business Service Authority.

These schemes provide defined benefits to members (retirement lump sums and pensions), earned through employment in the Council. However, the arrangements for the Teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The scheme is therefore accounted for as if it was a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Individual Schools Budget line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

Employees of the Council are also eligible to be a member of The National Employment Savings Trust (NEST), administered by the NEST Corporation. This scheme is accounted for as a defined contribution scheme with no liability for future payments of benefits recognised in the Balance Sheet. The members service area line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to NEST Pensions in the year.

The Local Government Pension Scheme

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

- The liabilities of the Somerset County pension fund 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 2.60% (based on the annualised yield at the 21-year point on the Merrill Lynch AA-rated corporate bond yield curve);
- The assets of the Somerset 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's 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;

On 7 February 2018, the International Accounting Standards Board (IASB) issued amendments to the IAS19 standard which now requires that when determining any past service cost or gain or loss on settlement that the net defined benefit liability is remeasured using current assumptions and the fair value of plan assets at the time of the event. This applies for all accounting periods starting on or after 1 January 2019 but only where the application of the remeasurement is material.

Having discussed this additional requirement with the pension fund Actuary, we have assumed that all events are material so have adopted the approach set out in the IAS19 amendment.

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

any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

- Remeasurements comprising:
 - The return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
 - Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure; and
 - Contributions paid to the Somerset County 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 transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.

Further details on the Local Government Pension Scheme can be found in note 52.

9 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.

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 (CIES) is the amount payable for the year according to the loan agreement.

Where premiums and discounts have been charged to the CIES, 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 CIES 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

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.

- 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 Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

For most of the financial assets held by the Council, this means 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 (where material) on all its financial assets held at amortised cost, either on a 12-month or lifetime basis. 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. The Council carries out regular financial assessments of its significant contractors, to determine their financial position. 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.

To assess the potential collective credit loss for its trade receivables, the Council has used a provision matrix, based on historical observed and current default rates, to determine the possibility of default. No adjustment was made within the matrix for forward-looking estimates of expected credit loss as the Council's debt management process will help mitigate the impact of any future increase in credit risk. It would also have been difficult to determine a reasonable and supportable estimate of future risk without undue cost or effort, though the unprecedented impact of COVID19 and subsequent lockdown has been considered.

The matrix confirmed that historically, a very small element of Council debt (in relation to trade receivables) has been written-off (0.2% of total debts raised). In recent years, the Council has implemented a robust impairment policy that has identified an average impairment in line with the amounts eventually written-off.

Given the historically low level of debt write-off within the Council, the presumption in paragraph 7.2.9.11 of the Code, that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due, has been rebutted.

The Council is satisfied the following impairment methodology (adjusted to include consideration of all debts irrespective of whether they are overdue) adequately covers the impairment requirement of IFRS9, though the methodology is reviewed annually:

| Age of Debt | Firm Recovery Arrangements in Place | Actively pursuing | Write Off | Impairment |
|----------------------------|---|---|------------------|-------------------|
| 0 – 364 days | Service to make appropriate impairment based on knowledge and judgement of the debt | | | |
| 365 days + | No | Yes | No | Yes - 100% |
| 365 days + | No | No | Yes | No |
| 365 days + (payment plans) | Yes | Service to make appropriate impairment based on knowledge and judgement of the debt | | |

Further details of the Council's debt management process and COVID19 assessment can be found in the Credit and Counterparty risk section of Note 36 and the Estimation Uncertainty Note 5.

For trade receivables, which are reported net, such losses are net off against the gross amortised cost of the asset to reduce its carrying amount in the Balance Sheet with the loss being recognised within the relevant service line of the continuing operations section of the Comprehensive Income and Expenditure Statement.

Impairment allowances for our lease receivables carried at amortised cost are recognised based on the general approach within IFRS9 using the probability of default approach.

Under this approach, the loss allowance has been calculated as [possibility of default (over next 12 months if no significant increase in credit risk has occurred; or lifetime, where significant increase in credit risk has occurred) x predicted % loss if a default takes place x

carrying amount of loan]. Historically, there has never been a default on our lease receivables as the Council maintains a close relationship with the lessee. Regular reviews and meetings take place between both parties, as the lease arrangements are an integral part of the Council's elderly care provision, so the possibility of any future material default is unlikely.

For lease receivables, which are reported net, such losses (where material) are net off against the gross amortised cost of the asset to reduce its carrying amount in the Balance Sheet with the loss being recognised within the relevant service line of the continuing operations section of the Comprehensive Income and Expenditure Statement.

On confirmation the trade/lease receivables will not be collectable, the gross carrying value of the asset is written off against the associated allowance.

- Financial Assets Measures at Fair value Through Profit or Loss (FVPL)

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. 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.

The Council does not carry any Financial Assets at Fair Value through Other Comprehensive Income.

10 Fair Value Measurement

The Council measures some of its non-financial assets, such as surplus properties, 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 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; or

Level 3 – unobservable inputs for the asset or liability.

The Council will review, on an annual basis, the fair value of its non-financial assets. In doing so, it will consider the most accurate and appropriate inputs to determine the fair value of these assets. This may on occasions lead to a change in the overall hierarchy.

Details of these transfers are disclosed in Note 29.

11 Government Grants and Contributions (Including Donated Assets)

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 or there is reasonable assurance that there will be compliance. 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 yet been met are carried in the Balance Sheet as receipts in advance. When conditions are satisfied, the grant or contribution is credited to the relevant service line (where grants can be identified to services) or Taxation and Non-specific Grant Income (where grants cannot be identified to particular service expenditure) 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.

12 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

Finance Leases

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

Lease payments are apportioned between:

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

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

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

Operating Leases

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

The Council as Lessor

Finance Leases

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

Lease rentals receivable are apportioned between:

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

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

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

Operating Leases

Where the 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

appropriate service 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.

13 Property, Plant and Equipment

Property, plant and equipment are assets with a physical substance that are held for use in the provision of services; for rental to others; for administrative purposes; will be used during more than one financial year and meet the IAS16 recognition criteria. However, the Council charges certain lower value items that have an expected life of more than one year to revenue in the year they are purchased.

The types of assets the Council includes under Property, Plant and Equipment reflect the classifications identified in the Code:

- Land.
- Buildings.
- Vehicles and Equipment.
- Infrastructure (mainly road improvements).
- Assets under construction; and
- Surplus property, plant and equipment (not classified as held for sale).

Recognition

The Council capitalises expenditure on Property, plant and equipment including the costs of acquisition and construction, and costs incurred subsequently to enhance, replace part of, or service the asset provided that it yields benefits or service potential for more than one year and the cost or fair value can be reliably measured.

Subsequent costs arising from day-to-day servicing of the assets, such as repairs and maintenance, are not capitalised. Where a component of an asset is replaced or restored (i.e. expenditure on enhancing the asset), the Council de-recognises the carrying amount of the old component if material.

Measurement

Property, plant and equipment are initially measured at cost on an accrual's basis, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Donated assets are measured at fair value at the date of acquisition. Assets are then carried in the balance sheet using the following measurement basis:

| Group of assets | Measure | Basis |
|-------------------------|----------------|--------------------------|
| Land | Current value | Existing Use Value (EUV) |
| Buildings – Non Schools | Current value | Existing Use Value (EUV) |

| | | |
|---------------------------|---------------|------------------------------------|
| Buildings – Schools | Current value | Depreciated Replacement Cost (DRC) |
| Vehicles and equipment | Historic cost | Depreciated Historic Cost |
| Infrastructure | Historic cost | Depreciated Historic Cost |
| Assets under construction | Historic cost | Cost |
| Surplus assets | Fair value | Highest and Best Use |

If there is no market-based evidence of value because of the specialist nature of the asset, the Council estimates its current value using the cost of replacing the asset with its modern equivalent (i.e. at depreciated replacement cost).

Assets that are included in the Balance Sheet at current value are revalued on a rolling basis over 5 years. When an asset is revalued, any accumulated depreciation and impairment at the date of revaluation is eliminated against the gross carrying amount and the net amount restated to the revalued amount of the asset. Where the value of the asset increases upon revaluation, the increase is recognised in the Revaluation Reserve, unless the increase is reversing any previous revaluation loss or impairment previously charged to the Surplus or Deficit on Provision of Services.

In such cases, the reversal of the previous decrease credits the Surplus or Deficit on Provision of Services to the extent that the reversal does not exceed the carrying amount that would have been determined had no previous decrease been recognised. Any increase in value above the reversal is treated as a revaluation gain and credited to the Revaluation Reserve.

Where the value of the asset decreases upon revaluation, the decrease is charged to the Revaluation Reserve up to the credit balance existing in respect of the asset, and thereafter to the Surplus or Deficit on Provision of Services. Under regulations and statutory guidance, revaluation gains and losses charged to the Surplus or Deficit on the Provision of Services are not proper charges to the General Fund. The Council therefore transfers such amounts to the Capital Adjustment Account in the Movement in Reserves Statement.

Consideration is also given each year of the possibility there may be a material change in value within the asset portfolio's that were not valued during the year. If a material movement is identified, the Council considers whether an adjustment is required in the accounts to ensure the assets are carried at current value (except for surplus assets which are carried at fair value).

Depreciation

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. With the exception of freehold land that has an unlimited useful life the Council depreciates all property, plant and equipment assets that are available for use, on a straight-line basis over the period that the Council expects to use them, with the charge being allocated to the Surplus or Deficit on the Provision of Services. For assets with material components that have different useful lives, each component is depreciated separately (see Componentisation below). Typically, the Council uses the following useful lives for our assets for depreciation purposes:

| Type | Useful life |
|---|--|
| Freehold land | Indefinite, so not depreciated |
| Leasehold land & buildings | Life is dependent on the lease terms |
| Operational buildings | 20 to 50 years, depending on type of building and other operational factors |
| Highways Infrastructure: Carriageways | 30 years (based on Highways Asset Management Finance Information Group (HAMFIG) valuation toolkit) |
| Highways Infrastructure: Footways | 23 years (based on HAMFIG toolkit) |
| Highways Infrastructure: Street Furniture | 15 years (based on HAMFIG toolkit) |
| Highways Infrastructure: Highways Land | 125 years (based on HAMFIG toolkit) |
| Highways Infrastructure: Structures | 120 years (based on HAMFIG toolkit) |
| Highways Infrastructure: Street Lighting | 30 years (based on HAMFIG toolkit) |
| Highways Infrastructure: Traffic Mgt Vehicles | 15 years (based on HAMFIG toolkit) |
| Plant | 5 to 15 years |
| Mobile classrooms | 10 years |
| IT and other equipment | 40 years |
| Software (SAP HCL) | 4-7 years |
| Software licences | 6 years |
| | Up to 25 years, depending on contract. |
| | 25 years relates to the Council's SAP system. |

Under regulations and statutory guidance, depreciation charged to the Surplus or Deficit on the Provision of Services is not a proper charge to the General Fund. We therefore transfer such amounts to the Capital Adjustment Account in the Movement in Reserves Statement. Additionally, on revalued assets, we transfer from the Revaluation Reserve to the Capital Adjustment Account the difference in depreciation based on the revalued carrying amount and the depreciation based on the asset's historical cost.

Componentisation

Where a high value asset, for example a building, includes a number of components with significantly different asset lives, the Council is required to identify and depreciate the components separately from the main asset. This additional analysis is only required for assets that we deem 'significant', so we are required to set a materiality threshold to assist with the identification of such assets. For 2021/22, the Council has set a materiality threshold of £1.5 million for individual assets and a significance level for separate components of 20% of the whole asset's original cost. Consideration of componentisation is only required for assets that meet these two criteria. This is the minimum requirement (as defined by the Code) but services may have chosen to apply componentisation for assets below this threshold if it assists with asset planning.

Under the International Financial Reporting Standards (IFRS), there is also a requirement to separately identify any elements of previously recognised revaluation gains (reported in the Revaluation Reserve) that relate to components identified during the componentisation process. In previous years, the Revaluation Reserve had been amortised in-line with the

revalued land and buildings depreciation charge to off-set the additional charge taken to the General Fund as a result of the assets increased carrying value. Where a revaluation gain was identified for an item of property with land and buildings elements, the gain was amortised in line with the increased depreciation charge.

Impairment

The Council recognises an impairment loss where the carrying amount of an asset exceeds its recoverable amount. At the end of each financial year, the Council assesses whether there is any indication that an asset may be impaired, for example there is evidence of physical damage or obsolescence of an asset. An assessment is also carried out to consider whether there is any indication that any impairment losses recognised in earlier periods for an asset may no longer exist or may have decreased, in the limited circumstances of a reversal of the event that caused the original impairment.

The Council accounts for impairment losses by initially allocating the loss against any credit balance held in the Revaluation Reserve relating to the impaired asset, and thereafter any residual impairment loss is allocated directly to the Surplus or Deficit on the Provision of Services. We account for the reversal of a previous impairment loss in the Surplus or Deficit on the Provision of Services to the extent that the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised in prior years. Any reversal amount above this is accounted for as a revaluation gain and credited to the Revaluation Reserve.

Under regulations and statutory guidance impairment losses and impairment reversals charged to the Surplus or Deficit on the Provision of Services are not proper charges to the General Fund. We therefore transfer such amounts to the Capital Adjustment Account in the Movement in Reserves Statement.

14 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 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 asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an Intangible Asset is amortised over its useful life on a straight-line basis to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that 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.

15 Heritage Assets

FRS102 defines a heritage asset as one with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. The Code offers further interpretation of this definition, stating that heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations and held by the reporting entity in pursuit of its overall objectives in relation to the maintenance of heritage.

The Council has interpreted this to mean that an asset is not classified as a heritage asset merely because it has certain qualities (e.g. a listed building). It is the intention to preserve the asset for future generations that is important, coupled with a demonstrable contribution to knowledge and culture. Operational heritage assets have always been shown in the Balance Sheet under their appropriate classifications. These assets continue to be shown in this way and carried in accordance with the other asset accounting policies set out herein. FRS102 does not apply to such assets.

Heritage assets (other than operational heritage assets) are measured at a valuation in line with FRS102. The standard states that the valuation may be made by any method that is appropriate and relevant. For the majority of the Council's collection, neither cost nor valuation information can be obtained (as the cost of obtaining the valuations would be disproportionate in terms of the benefit derived). Where items have been purchased, cost information is available. The Council is of the opinion that it will be unable to revalue these purchased items with sufficient reliability (at a cost commensurate to users of the financial statements).

Subsequently, any newly purchased collections (where the purchase cost, either individually or collectively (if the artefact forms part of a collection), exceeds a de-minimis of £1,000) will be held at historic cost. Where the cost to acquire an artefact does not exceed this de-minimis, the purchase cost is expensed in the year of purchase as a cost of service to the Council's Museums Service through the Income and Expenditure account.

The Council also owns a number of collections and archive information. These are not included in the Balance Sheet, as the cost of valuation would not be commensurate with the benefits of the information and the valuations would not be readily ascertainable in many cases.

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

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

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

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

17 Accounting for Schools

There are four main types of state school that all receive funding from the Council (referred to as local Authority maintained):

- Community, including Pupil Referral Units (of which there are 60 within our boundary)
- Voluntary controlled (49 within our boundary)
- Voluntary aided (25 within our boundary); and
- Foundation (4 within our boundary).

The remaining type of state school, an Academy, (of which there are 130 within our boundary) receives its funding direct from Central Government.

The Code confirms that the balance of control for local authority-maintained schools lies with the local authority. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements (and not the group accounts). Therefore, schools' transactions, cash flows and balances are

recognised in each of the financial statements of the Council as if they were the transactions, cash flows and balances of the Council.

As Academies are funded directly and operate outside the control of the Council, they are required to report their income and expenditure in their own accounts and therefore none of their transactions are reported within the Council's accounts.

Schools Non-Current Assets

With regards to the recognition of Schools Non-Current Assets (such as land and buildings), The Code requires the Council to consider the asset recognition tests relevant to the specific arrangements that prevail for the property.

To assist local authorities, LAAP Bulletin 101 – Accounting for Non-Current Assets used by LA Maintained Schools, identifies three arrangements in existence that need to be considered:

- A freehold interest in the property.

For these arrangements, the Council considers Section 4.1 of the Code and adopts the rules set out in IAS16 Property, Plant and Equipment (see Accounting Policy 13 for more details)

- A leasehold interest in the property.

For these arrangements, the Council considers Section 4.2 of the Code and adopts the rules set out in IAS17 Leases (see Accounting Policy 12 for more details), and

- Occupation of the property under a mere licence.

Under these arrangements, neither the Council nor the schools governing body retain any substantive rights to the property.

Any subsequent expenditure incurred in relation to schools that have not been recognised is expensed through the Comprehensive Income and Expenditure Statement as revenue expenditure funded from capital under statute (REFCUS) in the year it is incurred (see Accounting Policy 21 for further details).

18 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.

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 highly likely that reimbursement will be received if the Council settles the obligation.

19 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 are disclosed in Note 50.

20 Reserves

The Council sets aside specific amounts in reserves for future policy purposes or to cover contingencies. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to match against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then drawn down to fund the expenditure so there is no net charge against Council Tax for the expenditure.

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

21 Revenue Expenditure Funded from Capital Under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but 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.

22 Private Finance Initiative (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is not deemed to control the services that are provided under its current PFI scheme, and as ownership of the property, plant and equipment passes to the Education Trust rather than the Council at the end of the contract, during the contract period the Council does not carry the asset used under the contract on its Balance Sheet as part of property, plant and equipment.

Prior to derecognising the asset through the Income and Expenditure account as part of the gain/loss on disposal, the asset used under the contract was recognised at the lower of its fair value or the present value of the minimum lease payments. The asset was then matched by a corresponding liability for making payments in relation to the acquisition of the asset used under the contract to the scheme operator to pay for the capital investment.

The amounts payable to the PFI operators each year are analysed into five elements:

- Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- Finance cost – an interest charge of 9.6% on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Contingent rent – changes in the amount to be paid for the property arising during the contract, debited/credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease); and
- Life-cycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as REFCUS and written out to the Individual Schools Budget line in the Continuing Operations section of the Comprehensive Income & Expenditure Statement, when the relevant works are eventually carried out.

23 Value Added Tax

Income and expenditure exclude any amounts related to VAT, as all VAT collected is payable to HM Revenue & Customs and all VAT paid is recoverable from them.

24 Inventories

Inventories are measured at the lower of cost and net realisable value unless where inventories are not held with the expectation of generating profit. Where inventories are held for distribution at no charge or for a nominal charge they are measured at the lower of cost and current replacement cost.

25 Events after the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts are 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; and
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts are 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.

26 Council Tax and Non-Domestic Rates

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

Accounting for Council Tax and NDR

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is our share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in our 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 our share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payments due under the statutory arrangements will not be made, the asset is written down and a charge made to the taxation and non-specific grant 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.

27 Joint Operations

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

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

28 Local Enterprise Partnership (LEP)

The Council is the single accountable body for the Heart of the Southwest Local Enterprise Partnership (HotSW LEP). During the Council's group accounts review, it was concluded that the HotSW LEP entity did not fall under the Council's control, so the Council has considered its relationship with the LEP to determine the accounting treatment for the different funding streams.

29 Overheads & 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

Comprehensive Income and Expenditure Statement

This statement shows the cost of providing services in the year (based on the Councils internal management reporting structure) in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

| 31 March 2021 | | | Comprehensive Income (-) and Expenditure Statement for the year ended 31 March | 31 March 2022 | | | Notes |
|---|--|---|---|-----------------------------------|------------------------------|---------------------------------|-------|
| Gross Expenditure (Restated) £millions | Gross Income (Restated) £millions | Net Expenditure (Restated) £millions | | Gross Expenditure £millions | Gross Income £millions | Net Expenditure £millions | |
| | | | <u>Continuing Operations</u> | | | | |
| 274.777 | -128.737 | 146.040 | Adult Services | 276.498 | -175.651 | 100.847 | 7 |
| 147.751 | -65.706 | 82.045 | Children's Services | 171.286 | -74.589 | 96.697 | 7 |
| 159.282 | -52.536 | 106.746 | Economic and Community Infrastructure Services | 181.049 | -68.324 | 112.725 | 7 |
| 27.082 | -29.001 | -1.919 | Public Health | 33.561 | -35.615 | -2.054 | 7 |
| 26.670 | -3.840 | 22.830 | Customers, Digital & Workforce | 26.734 | -3.690 | 23.044 | 7 |
| 13.575 | -5.152 | 8.423 | Finance and Governance | 15.595 | -6.201 | 9.394 | 7 |
| 2.386 | -0.241 | 2.145 | Corporate Costs (including Contingencies) | -2.943 | -0.460 | -3.403 | 7 |
| 29.889 | -29.402 | 0.487 | Accountable Bodies (LEP/SRA/CDS) | 26.225 | -23.755 | 2.470 | 7 |
| 216.164 | -184.598 | 31.566 | Schools and Early Years | 233.071 | -188.460 | 44.611 | 7 |
| 897.576 | -499.213 | 398.363 | Surplus (-) / Deficit on Continuing Operations | 961.076 | -576.745 | 384.331 | |
| 29.408 | - | 29.408 | Other operating expenditure | 30.180 | - | 30.180 | 13 |
| 46.991 | -8.218 | 38.773 | Financing and investment income (-) and expenditure | 49.297 | -9.427 | 39.870 | 14 |
| - | -425.611 | -425.611 | Taxation and non-specific grant income (-) | - | -443.107 | -443.107 | 15 |
| 973.975 | -933.042 | 40.933 | Surplus (-) or Deficit on Provision of Services | 1,040.553 | -1,029.279 | 11.274 | |
| | | | <u>Items that will not be reclassified to the Surplus (-) or Deficit on the Provision of Services</u> | | | | |
| | | -31.674 | Surplus (-) or Deficit on revaluation of non-current assets | | | -43.287 | 16 |
| | | 196.860 | Remeasurement gains (-) / losses on pension assets/liabilities | | | -177.118 | 52 |
| | | 165.186 | Other Comprehensive Income (-) and Expenditure | | | -220.405 | |
| | | 206.119 | Total Comprehensive Income (-) and Expenditure | | | -209.131 | |

Movement in Reserves Statement

The Movement in Reserves 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 other 'unusable reserves'. The Statement shows how the movements in year of the Council's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax (or rents) for the year. The Net Increase/Decrease line shows the statutory General Fund Balance movements in the year following those adjustments.

| Movement in Reserves Statement For the years ended 31 March 2021 & 2022 | | Revenue Reserve | | | Capital Reserves | | Total Usable Reserves £m | Unusable Reserves £m | Total Authority Reserves £m |
|--|--------------|--|---|-------------------------------|--------------------------------------|--|-----------------------------|-------------------------|--------------------------------|
| | | General Fund (inc. Earmarked Reserves) Balance £m | S31 Local Tax Income Guarantee Grant Reserve £m | General Fund - Total £m | Capital Receipts Reserve £m | Capital Grants & Contributions Unapplied £m | | | |
| Balance as at 1 April 2020 | 43/44 | 112.727 | - | 112.727 | 5.064 | 4.008 | 121.799 | -214.220 | -92.421 |
| Movement in Reserves during 2020/21 | | | | | | | | | |
| Surplus or deficit (-) on provision of services | | -40.933 | - | -40.933 | - | - | -40.933 | - | -40.933 |
| Other Comprehensive Income and Expenditure (-) | 16/52 | - | - | - | - | - | - | -165.186 | -165.186 |
| Total Comprehensive Income and Expenditure (-) | | -40.933 | - | 40.933 | - | - | -40.933 | -165.186 | -206.119 |
| Adjustments between accounting basis & funding basis under regulations | 11 | 84.812 | - | 84.812 | 4.875 | -0.334 | 89.353 | -89.353 | - |
| Increase/Decrease (-) in Year Before Transfers to Reserve | | 43.879 | 0.000 | 43.879 | 4.875 | -0.334 | 48.420 | -254.539 | -206.119 |
| Transfers to (-) / from Reserves | 12 | -10.138 | 10.138 | - | - | - | - | - | - |
| Balance as at 31 March 2021 | 43/44 | 146.468 | 10.138 | 156.606 | 9.939 | 3.674 | 170.219 | -468.759 | -298.540 |
| Movement in Reserves during 2021/22 | | | | | | | | | |
| Surplus or deficit (-) on provision of services | | -11.274 | - | -11.274 | - | - | -11.274 | - | -11.274 |
| Other Comprehensive Income and Expenditure (-) | 16/52 | - | - | - | - | - | - | 220.405 | 220.405 |
| Total Comprehensive Income and Expenditure (-) | | -11.274 | - | -11.274 | - | - | -11.274 | 220.405 | 209.131 |
| Adjustments between accounting basis & funding basis under regulations | 11 | 73.874 | - | 73.874 | 3.722 | -0.092 | 77.504 | -77.504 | - |
| Net Increase/Decrease (-) before Transfers to Reserves | | 62.600 | - | 62.600 | 3.722 | -0.092 | 66.230 | 142.901 | 209.131 |
| Transfers to (-) / from Reserves | 12 | 5.845 | -5.845 | - | - | - | - | - | - |
| Increase/Decrease (-) in Year | | 68.445 | -5.845 | 62.600 | 3.722 | -0.092 | 66.230 | 142.901 | 209.131 |
| Balance as at 31 March 2022 | 43/44 | 214.913 | 4.293 | 219.206 | 13.661 | 3.582 | 236.449 | -325.858 | -89.409 |

Further details on the s31 Local Tax Income Guarantee Grant Reserve, and individual balances for the General Fund and Earmarked Reserves can be found in Note 43 Useable Reserves.

Balance Sheet

The Balance Sheet shows the value of the assets and liabilities recognised by the Council as at the Balance Sheet date

| 31 March 2021 | Balance Sheet | 31 March 2022 | |
|-------------------|--|-------------------|-------|
| £millions | | £millions | Notes |
| 984.996 | Property, Plant & Equipment | 1,008.600 | 25 |
| 1.934 | Heritage Assets | 1.934 | 32 |
| 1.481 | Intangible Non-Current Assets | 1.082 | 26 |
| 38.843 | Long term Investments | 44.499 | 35 |
| 20.344 | Long term Receivables | 19.279 | 35 |
| 1,047.598 | Long term Assets | 1,075.394 | |
| 155.237 | Short term Investments | 210.199 | 35 |
| 1.131 | Assets Held for Sale | 0.932 | 28 |
| 7.667 | Inventories | 7.443 | 37 |
| 59.965 | Short term Receivables & Payments in Advance | 64.869 | 38 |
| 83.743 | Cash and Cash Equivalents | 85.401 | 45 |
| 307.743 | Current Assets | 368.844 | |
| -100.321 | Short term Payables & Receipts in Advance | -125.234 | 39 |
| -41.552 | Revenue Grants/Contributions Receipts in Advance | -41.243 | 42 |
| -72.402 | Capital Grants/Contributions Receipts in Advance | -63.487 | 42 |
| -5.862 | Long term Borrowing Repayable < 1 year | -5.983 | 35 |
| -7.425 | Provisions | -6.971 | 41 |
| -7.220 | Short term Borrowing | -10.050 | 35 |
| -6.605 | Overdraft | -5.115 | 45 |
| -241.387 | Current Liabilities | -258.083 | |
| -0.259 | Provisions | -0.260 | 41 |
| -338.441 | Long term Borrowing Repayable > 1 Year | -338.001 | 35 |
| -1,033.427 | Other Long Term Liabilities | -908.704 | 40 |
| -13.206 | Revenue Grants/Contributions Receipts in Advance | -3.330 | 42 |
| -27.161 | Capital Grants/Contributions Receipts in Advance | -25.269 | 42 |
| -1,412.494 | Long Term Liabilities | -1,275.564 | |
| -298.540 | Net Assets | -89.409 | |
| 170.219 | Usable Reserves | 236.449 | 43 |
| -468.759 | Unusable Reserves | -325.858 | 44 |
| -298.540 | Total Reserves | -89.409 | |

J. C. Vaughan

Jason Vaughan FCCA, CPFA, IRRV (Hons)

**Director of Finance
(Chief Financial Officer)**

29 July 2022

If we refer to a note number in the right-hand column, there is a further explanation in the section 'Notes to the core financial statements'

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 (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'.

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.

| 2020/21 | | 2021/22 | |
|----------------|---|----------------|-------|
| £millions | | £millions | Notes |
| 40.933 | Net surplus (-) or deficit on the provision of services | 11.274 | |
| -169.649 | Adjustments to net surplus or deficit on the provision of services for non cash movements | -136.607 | 46 |
| 84.286 | Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities | 88.792 | 46 |
| -44.430 | Net cash flows from Operating Activities | -36.541 | 46 |
| 9.170 | Investing Activities | 34.859 | 47 |
| 3.063 | Financing Activities | -1.466 | 48 |
| -32.197 | Net increase (-) or decrease in cash and cash equivalents | -3.148 | |
| 44.941 | Cash and cash equivalents at the beginning of the reporting period | 77.138 | |
| 77.138 | Cash and cash equivalents at the end of the reporting period | 80.286 | 45 |

Notes to the core financial statements

Note 1: Prior-Period Adjustment

- Comprehensive Income & Expenditure Statement – Change In Service Reporting

We are required to report our service segments based on the way in which we operate and manage our services. The reporting format means that the Continuing Operations section of the Comprehensive Income and Expenditure Statement supports accountability and transparency as it reflects the way in which services operate and performance is managed.

In 2021/22, the Council changed the way it reported some of its service headings to Cabinet. Although this is not a change in accounting policy nor is it a misstatement, for the purposes of clear comparatives the Comprehensive Income and Expenditure Statement has been restated.

The final deficit position for continuing operations remains unchanged when compared to the 2020/21 position reported in last year's accounts. The changes can be described as:

- The service heading for Corporate & Support Services has been removed, and is now being reported as Customers, Digital & Workforce, Finance & Governance, and Corporate Costs.
- The service heading for Individual Schools Budget has been renamed and is now being reported as Schools and Early Years.

The restatement movements can be seen in the following table 1:

| <u>Comprehensive Income and Expenditure</u> <u>Statement for the year ended 31 March 2021</u> | <u>As reported in the 2020/21 accounts</u> 31 March 2021 | | | | <u>As Restated</u> 31 March 2021 | | |
|--|---|-----------------|-----------------|--|-------------------------------------|-----------------|-----------------|
| | Gross Expenditure | Gross Income | Net Expenditure | Change in Internal Reporting Classifications | Gross Expenditure | Gross Income | Net Expenditure |
| | £millions | £millions | £millions | | £millions | £millions | £millions |
| <u>Continuing Operations</u> | | | | | | | |
| Adult Services | 274.018 | -128.751 | 145.267 | - | 274.018 | -128.751 | 145.267 |
| Children's Services | 166.069 | -65.557 | 100.512 | - | 166.069 | -65.557 | 100.512 |
| Economic and Community Infrastructure Services | 155.905 | -52.535 | 103.370 | - | 155.905 | -52.535 | 103.370 |
| Public Health | 30.127 | -29.001 | 1.126 | - | 30.127 | -29.001 | 1.126 |
| Corporate & Support Services (inc Corporate Contingency/Non-S) | 36.606 | -9.208 | 27.398 | -27.398 | - | - | - |
| Individual Schools Budget | 206.244 | -184.107 | 22.137 | -22.137 | - | - | - |
| Customers, Digital & Workforce | - | - | - | 19.045 | 22.878 | -3.833 | 19.045 |
| Finance and Governance | - | - | - | 6.395 | 11.522 | -5.127 | 6.395 |
| Corporate Costs (including Contingencies) | - | - | - | 1.958 | 2.206 | -0.248 | 1.958 |
| Accountable Bodies (LEP/SRA/CDS) | 30.599 | -29.402 | 1.197 | - | 30.599 | -29.402 | 1.197 |
| Schools and Early Years | - | - | - | 22.137 | 206.244 | -184.107 | 22.137 |
| Surplus (-) / Deficit on Continuing Operations | 899.568 | -498.561 | 401.007 | - | 899.568 | -498.561 | 401.007 |
| Other operating expenditure | 29.408 | - | 29.408 | - | 29.408 | - | 29.408 |
| Financing and investment income and expenditure | 44.366 | -8.237 | 36.129 | - | 44.366 | -8.237 | 36.129 |
| Taxation and non-specific grant income | - | -425.611 | -425.611 | - | - | -425.611 | -425.611 |
| Surplus (-) or Deficit on Provision of Services | 973.342 | -932.409 | 40.933 | - | 973.342 | -932.409 | 40.933 |

There was no impact on any other primary statements as a result of this restatement.

- Comprehensive Income & Expenditure Statement – Internal Income & Expenditure Reclassification

During 2021/22, a review of the Council's internal transactions identified an issue with how the transactions were being excluded from the Comprehensive Income & Expenditure Statement (CIES). Under accounting regulations, internal recharges do not meet the definition of income and expenditure because they do not represent an inflow/outflow of economic benefits to/from the Council and they do not result in an increase/decrease in reserves, so the transactions are removed from the CIES.

During 2021/22, the Councils internal review identified that although the internal recharges were being excluded from the CIES, the income and expenditure being excluded was taken from the service providing the internal supply (as internal recharges are charged at full cost recovery) rather than from the services providing and receiving the supply. This resulted in transactions between service headings being reported within the CIES in error. Paragraph 3.4.2.40 of the Code confirms that as service segments in the CIES are not intended to cover the reporting requirements for IFRS 8, transactions between internal services are not permitted in the service analysis section of the statement.

To ensure compliance with the Code, a full internal recharge review was carried out and the 2020/21 comparatives for the CIES have been restated as follows:

Page 112

| <u>Comprehensive Income and Expenditure</u> <u>Statement for the year ended 31 March 2021</u> | <u>As reported in the 2020/21 accounts,</u> <u>restated balance as per Table 1</u> | | | | | | <u>As Restated</u> | | |
|--|---|---------------------------|------------------------------|--|---|--------------------------------|---------------------------|------------------------------|--|
| | 31 March 2021 | | | | | 31 March 2021 | | | |
| | Gross Expenditure £millions | Gross Income £millions | Net Expenditure £millions | Change in Internal Expenditure Classification £millions | Change in Internal Income Classification £millions | Gross Expenditure £millions | Gross Income £millions | Net Expenditure £millions | |
| <u>Continuing Operations</u> | | | | | | | | | |
| Adult Services | 274.018 | -128.751 | 145.267 | 0.759 | 0.014 | 274.777 | -128.737 | 146.040 | |
| Children's Services | 166.069 | -65.557 | 100.512 | -18.318 | -0.149 | 147.751 | -65.706 | 82.045 | |
| Economic and Community Infrastructure Services | 155.905 | -52.535 | 103.370 | 3.377 | -0.001 | 159.282 | -52.536 | 106.746 | |
| Public Health | 30.127 | -29.001 | 1.126 | -3.045 | - | 27.082 | -29.001 | -1.919 | |
| Customers, Digital & Workforce | 22.878 | -3.833 | 19.045 | 3.792 | -0.007 | 26.670 | -3.840 | 22.830 | |
| Finance and Governance | 11.522 | -5.127 | 6.395 | 2.053 | -0.025 | 13.575 | -5.152 | 8.423 | |
| Corporate Costs (including Contingencies) | 2.206 | -0.248 | 1.958 | 0.180 | 0.007 | 2.386 | -0.241 | 2.145 | |
| Accountable Bodies (LEP/SRA/CDS) | 30.599 | -29.402 | 1.197 | -0.710 | - | 29.889 | -29.402 | 0.487 | |
| Schools and Early Years | 206.244 | -184.107 | 22.137 | 9.920 | -0.491 | 216.164 | -184.598 | 31.566 | |
| Surplus (-) / Deficit on Continuing Operations | 899.568 | -498.561 | 401.007 | -1.992 | -0.652 | 897.576 | -499.213 | 398.363 | |
| Other operating expenditure | 29.408 | - | 29.408 | - | - | 29.408 | - | 29.408 | |
| Financing and investment income and expenditure | 44.366 | -8.237 | 36.129 | 2.625 | 0.019 | 46.991 | -8.218 | 38.773 | |
| Taxation and non-specific grant income | 0.000 | -425.611 | -425.611 | - | - | - | -425.611 | -425.611 | |
| Surplus (-) or Deficit on Provision of Services | 973.342 | -932.409 | 40.933 | 0.633 | -0.633 | 973.975 | -933.042 | 40.933 | |

Although the internal review, and subsequent restatement, identified that £0.633m of income and expenditure had been incorrectly classified as internal, there was no net impact on the Deficit on Provision of Services, so no other Primary Statements have been affected by this restatement.

Note 2: COVID-19 Pandemic Response

The Council's response to COVID-19 has resulted in significantly increased expenditure during 2021/22. The pandemic has also had an adverse impact upon the Councils income during the year. The UK Government have recognised this and provided additional funding to support the Council in its pandemic response.

The following tables show the expenditure incurred by the Council in response to the COVID-19 pandemic, and the income received from Government and other partners (such as Somerset CCG and District Councils) to help fund the response. To ensure greater transparency, the expenditure and income has been analysed by service, expenditure type and source of funding.

Table 1: Total COVID expenditure/income by service (I&E) heading

2021/22

Page 113

| Impact of Covid-19 Reponse by Service For the year-ended 31st March 2022 | Gross Expenditure | Gross Income | Net Expenditure |
|---|------------------------------|-------------------------|----------------------------|
| | £millions | £millions | £millions |
| <u>Continuing Operations</u> | | | |
| Adult Services | 21.325 | -17.585 | 3.740 |
| Children's Services | 11.337 | -6.126 | 5.211 |
| Economic and Community Infrastructure Services | 2.012 | 0.137 | 2.149 |
| Public Health | 9.752 | -10.724 | -0.972 |
| Corporate & Support Services (inc Corporate Contingencies) | 6.000 | -3.705 | 2.295 |
| Surplus (-) / Deficit on Continuing Operations | 50.426 | -38.003 | 12.423 |
| Financing and investment income and expenditure | - | - | - |
| Taxation and non-specific grant income | - | -10.852 | -10.852 |
| Surplus (-) or Deficit on Provision of Services | 50.426 | -48.855 | 1.571 |

| Impact of Covid-19 Reponse by Service For the year-ended 31st March 2021 | Gross Expenditure | Gross Income | Net Expenditure |
|---|------------------------------|-------------------------|----------------------------|
| | £millions | £millions | £millions |
| <u>Continuing Operations</u> | | | |
| Adult Services | 37.343 | -28.247 | 9.096 |
| Children's Services | 7.567 | -2.342 | 5.225 |
| Economic and Community Infrastructure Services | 4.445 | -3.377 | 1.068 |
| Public Health | 3.672 | -5.985 | -2.313 |
| Corporate & Support Services (inc Corporate Contingencies) | 12.014 | -0.663 | 11.351 |
| Surplus (-) / Deficit on Continuing Operations | 65.041 | -40.614 | 24.427 |
| Financing and investment income and expenditure | - | -1.215 | -1.215 |
| Taxation and non-specific grant income | - | -14.769 | -14.769 |
| Surplus (-) or Deficit on Provision of Services | 65.041 | -56.598 | 8.443 |

Table 2: Total expenditure by MHCLG category

| 2020/21 Gross Expenditure £millions | Covid-19 Impact as per MHCLG Costs Analysis Statement for the year ended 31 March 2022 | 2021/22 Gross Expenditure £millions |
|--|---|--|
| <u>Adult Services</u> | | |
| 6.434 | Adult Social Care – additional demand | 4.108 |
| 23.655 | Adult Social Care – supporting the market | 12.404 |
| 0.190 | Adult Social Care – workforce pressures | 4.813 |
| 6.586 | Adult Social Care - Personal protective equipment (PPE) | 0.000 |
| 0.478 | Adult Social Care - other | 0.000 |
| <u>Children Services</u> | | |
| 1.599 | Children's Social Care - residential care | 1.358 |
| 0.086 | Children's Social Care - care leavers | 0.000 |
| 2.344 | Children's Services - other | 9.599 |
| 1.202 | Education - Home to school transport | 0.000 |
| 2.336 | Education - other | 0.380 |
| <u>Public Health</u> | | |
| | Public Health - other | 8.694 |
| 3.672 | Public Health - Testing, contact tracing and outbreak planning | 1.059 |
| <u>Corporate and Support Services</u> | | |
| 0.180 | Cultural & related - Sports, leisure and community facilities | 0.000 |
| 0.195 | Finance & corporate - ICT & remote working | 0.000 |
| 0.038 | Finance & corporate - other | 0.000 |
| 0.675 | Housing - rough sleeping | 0.000 |
| 0.015 | Other - PPE (non-Adult Social Care) | 0.000 |
| 9.678 | Other - excluding service areas listed above | 6.000 |
| 1.233 | Other - unachieved savings/delayed projects | 0.000 |
| <u>Economic and Community Infrastructure Services</u> | | |
| 2.515 | Environment and regulatory - waste management | 0.000 |
| 0.015 | Environment and regulatory - other | 0.234 |
| 0.020 | Planning & development | 0.000 |
| 1.595 | Highways and Transport | 1.386 |
| 0.300 | Other - Shielding | 0.392 |
| 65.041 | Total Expenditure | 50.426 |

Table 3: Total income by funding type

| 2020/21 Gross Income (-) £millions | Covid-19 Source of Funding Analysis Statement for the year ended 31 March 2022 | 2021/22 Gross Income (-) £millions |
|---|---|---|
| | <u>Grants Received</u> | |
| -16.235 | COVID-19 Support Grant | -10.852 |
| -0.442 | Bus Service Support Grant | -0.202 |
| -0.508 | Test and Trace Support Grant | - |
| -0.805 | Additional School & College Transport Capacity Funding | -0.357 |
| -0.138 | Emergency Active Travel Fund | - |
| -15.446 | Infection Control Fund | -12.414 |
| -3.620 | Income Compensation Scheme | -0.905 |
| -0.573 | Emergency Assistant Grant for Food & Essential Supplies | - |
| -1.902 | Winter Grant Scheme | -1.998 |
| -5.093 | Contain Outbreak Management Fund | -8.765 |
| -0.693 | Funding for Clinically Extremely Vulnerable | -0.943 |
| -1.831 | Adult Social Care Rapid Testing Fund | - |
| -0.957 | Workforce Capacity Fund | -5.018 |
| 0.000 | Omicron Support Fund | - |
| 0.000 | Practical Support Grant | -1.016 |
| 0.000 | Household Support Fund | -3.770 |
| 0.000 | Council Tax Support Grant | -3.705 |
| -0.392 | Opportunity Area Grant | - |
| -0.384 | Community Testing | - |
| | <u>Contributions Received</u> | |
| -10.236 | CCG | -0.153 |
| -2.305 | District Partners | - |
| | <u>Less: Lost Income from Sales, Fee's and Charges (SFC)</u> | |
| 0.002 | Commercial Income | |
| 0.195 | Cultural & Related SFC | 0.019 |
| 0.867 | Highways & Transport SFC | - |
| 0.028 | Planning & Development SFC | - |
| 3.870 | Other Income and SFC | 1.224 |
| -56.598 | Total Funding | -48.855 |

Further details of the Council's response to the COVID-19 pandemic can be found in the Narrative Report.

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

The Council has yet to adopt the following accounting standards:

- Annual Improvements to IFRS Standards 2018–2020 (Programme notes 4).

The annual IFRS improvement programme notes 4 changed standards:

- IFRS 1 (First-time adoption) – amendment relates to foreign operations of acquired subsidiaries transitioning to IFRS
 - IAS 37 (Onerous contracts) – clarifies the intention of the standard
 - IFRS 16 (Leases) – amendment removes a misleading example that is not referenced in the Code material
 - IAS 41 (Agriculture) – amendment removes the requirement in paragraph 22 of IAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).

These amendments prohibit an entity from deducting from the cost of property, plant and equipment amounts received from selling items produced while the entity is preparing the asset for its intended use.

We do not expect any of the amendments above, to have a material impact on our accounts when they are applied prospectively from 1st April 2022.

Note 4: Critical Judgements in Applying Accounting Policies & Changes in Accounting Estimates

Critical Judgements in Applying Accounting Policies

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

The critical judgements made in this Statement of Accounts are:

1. Where the Council have been able to evidence that it retains the freehold interest for a school's land and building it has recognised a non-current asset under the Property, Plant and Equipment (PPE) heading on the Council's balance sheet. As of 31 March 2022, the value of schools related land and buildings (including Pupil Referral Units - PRU) where freehold interest existed was £259.220m.

The Council has also recognised a non-current asset for any leasehold arrangements that meet the definition of a finance lease under IAS17. As of 31 March 2022, the value of schools related land and buildings where leasehold interest existed was £10.175m.

For those properties (including PRU's), where neither a freehold nor leasehold interest exists (71 schools as of 31st March 2022), the Council has deemed there to have been a mere licence granted by the legal owners (in most cases a religious body). As a mere licence passes no interest to the Council or the schools governing body and are terminable at any time without causal action (although Section 30 (11) of the School Standards and Framework Act 1998 provides that a reasonable period of notice, usually 2 years, be given), the Council is required to consider whether it holds any other substantive rights.

Under the CIPFA Code of Practice for Local Authorities, only a resource 'controlled' by the Council meets the definition of an asset, and as the mere license passes over no rights to the Council it is not possible to record a non-current asset on the Council's balance sheet for schools where such a licence exists. Any subsequent expenditure incurred in relation to schools that have not been recognised is expensed through the Comprehensive Income and Expenditure Statement as Revenue Expenditure Funded from Capital Under Statute (REFCUS) in the year it is incurred (see Accounting Policy 21 for further details).

2. The Council has provided a guarantee to the Somerset County Council Pension Fund for the Southwest Audit Partnership (SWAP) and Discovery in relation to the pension deficit of our ex-employees who transferred to SWAP and Dimensions Somerset SEV (the trading name for Discovery). The guarantee indemnifies the Fund should SWAP or Dimensions be unable to meet their employer obligations. The Council has also provided (for a charge) several pension bonds (totalling £1.304m) for outsourced functions where ex-employees have transferred to a new entity as part of the arrangement. These bonds will only be called should the new employers be unable to meet their pension obligations. Having reviewed these arrangements, the Council has determined that no liability has arisen during the financial year, as there has been no default and the assessed risk of future default is very low.
3. In 2015/16 the Better Care Fund was established by the Government to provide funds to local areas to support the integration of health and social care and to seek to achieve the National Conditions and Local Objectives. It is a requirement of the Better Care Fund that NHS Somerset Clinical Commissioning Group and Somerset County Council establish a pooled fund for this purpose, which was achieved through a signed agreement under Section 75 of the National Health Service Act 2006. Under this Section 75 agreement there are three funds hosted by whichever body undertook the contracting arrangements. The arrangement has been accounted for as a joint operation - where each partner shows in its accounts its share of the expenditure, assets and liabilities of the Better Care Fund. Having assessed the arrangement, the Council has determined that Funds 2 and 3 are administered by the Council and is therefore acting as principle for these funds.

Details of the transactions the Council reports in its accounts can be found in Note 17.

4. The Council is the single accountable body for the Heart of the Southwest Local Enterprise Partnership (HotSW LEP). During the Council's group accounts review, it was concluded that the HotSW LEP entity did not fall under the Council's control, so the Council has considered its relationship with the LEP to determine the accounting treatment for the following funding streams.

Growing Places Fund

This funding was transferred to the Council from Devon County Council, in August 2021, as part of strengthening the LEPs assurance framework and following directive from the Department for Business, Energy and Industrial Strategy (BEIS). This grant funding was awarded to Devon County Council in 2011 and was designed to create a sustainable revolving infrastructure fund for investment to unlock further economic development and leverage private investment. All decision making on the use of this fund is made by the LEP with the Council acting in an agency

role. As agent for this fund, the Council does not report any of the fund transactions in its accounts, with the exception of cash collected or expenditure incurred by the Council on behalf of the principal (the LEP), in which case there is a creditor position, and the net cash position is included in financing activities in the Cash Flow Statement. As of 31 March 22, the authority held £6.243m of unspent Growing Places funding.

Growth Deal and Getting Building Fund

The Council received a total of £197m of Growth Deal funding during 2015 to 2021. During 2021/22 the Council received an additional £17.7m of Getting Building Fund, the total grant received for this fund since 2019 was £35.4m. The funds have conditions within the grant terms that state spend against the grant must be defrayed by 31/03/2021 and 31/03/2022 respectively. Both have been fully utilised to approved projects reported to central government and fully spent using the Freedoms and Flexibilities arrangements allowed for in the grant determinations.

The grants were awarded to the HotSW LEP and payable to the Council as the accountable body. The Council has a more active role in decision making, retaining a veto right on the use of the funds, and maintains the liability of grant claw-back. Acting as principle for both the Growth Deal and Getting Building Fund, all transactions for these funds are therefore included within the Council accounts.

5. Based on an assessment in accordance with IFRS 10 Consolidated Financial Statements and IFRS 11 Joint Arrangements, and considering materiality, the Council has concluded that it does not have control, joint-control or significant influence over any other entities. Therefore, the Council has no material subsidiaries, joint ventures or associates and there is no requirement to prepare group accounts for 2021/22. Further details of the Council's non-material interest in Futures for Somerset, can be found in Note 53.

Changes in Accounting Estimates

1. From 1st April 2021, to ensure compliance with The Code, the authority has estimated the useful life of its Highways Network Infrastructure asset based on the useful lives of the asset components. Prior to this date, the useful life was estimated based on the weighted average life of the whole asset. The useful life is a best estimate of the number of years an asset is considered useable, and any change to the useful life impacts on the depreciation charged to the Comprehensive Income & Expenditure Statement, and the carrying value of the asset in the Balance Sheet.

This change in estimate has increased the depreciation charge to the Economic & Community Infrastructure (ECI) line in the Continuing Operations section of the Comprehensive Income & Expenditure Statement (by approximately £9.178m) and reduced the value of Infrastructure assets reported as Property, Plant and Equipment (PPE) in the Balance Sheet by the same amount.

As a change in accounting estimates does not require retrospective restatement, the comparative values for 2020/21 have not been restated, but had the previous year's estimation been based on the componentised rather than weighted average approach, the depreciation charge to the ECI line in the Comprehensive Income & Expenditure statement would have

increased by approximately £8.449m, with the carrying value of the PPE line in the Balance Sheet reduced by the same amount.

Note 5: 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. 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 Balance Sheet at 31 March 2022 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 |
|---|---|---|
| <p>Valuation of operational property</p> | <p>As at 31 March 2022, the value of operational property carried in the Council's balance sheet was £465.274m.</p> <p>Asset valuations are based on market prices and are periodically reviewed to ensure that the Council does not materially misstate its non-current assets. The Council's internal valuers provided valuations as at 31 March 2022 for approximately 20% of its operational portfolio. The remaining balance of operational properties were also reviewed to ensure values reflect current values.</p> <p>The Council's valuers have considered the property market and building industry specific indices as part of their assessment (as these are subject to a level of uncertainty) and confirmed there were no properties within the Council's portfolio during 2021/22 that required a material valuation uncertainty declaration.</p> | <p>A reduction in the estimated valuations would result in reductions to the Revaluation Reserve and / or a loss recorded as appropriate in the Comprehensive Income and Expenditure Statement. If the value of the Council's operational properties were to reduce by 10%, this would result in a charge to the Comprehensive Income and Expenditure Statement of up to £46.5m.</p> <p>An increase in estimated valuations would result in increases to the Revaluation Reserve and / or reversals of previous negative revaluations to the Comprehensive Income and Expenditure Statement and / or gains being recorded as appropriate in the Comprehensive Income and Expenditure Statement.</p> |

| | | |
|----------------------------------|---|--|
| <p>Depreciation</p> | <p>During 2021/22, the total amount of depreciation (including intangible asset amortisation) charged to the Comprehensive Income & Expenditure Statement was £37.762m.</p> <p>Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it more difficult to sustain spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.</p> <p>See Accounting Policy 13 for details of the useful lives used in the depreciation estimate for Property, Plant & Equipment and Highways Network Infrastructure.</p> | <p>If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.</p> <p>It is estimated that the annual depreciation charge would increase by approximately £3.317 million for every year that useful lives had to be reduced (based on asset values as at 31st March 2022)</p> |
| <p>Pensions Liability</p> | <p>As at 31 March 2022, the value of Local Government Pension Scheme IAS19 liability carried in the Council's balance sheet was £812.682m.</p> <p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. The Council instructs Barnett Waddingham, a firm of actuaries, to make these sensitive judgements on our behalf.</p> | <p>The effects on the net pension's liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £42.237m (see the sensitivity analysis in note 52 for other potential movements to the pensions liability as a result of changes in actuarial assumptions).</p> <p>Similarly, if the authorities share of pension fund assets (see note 52 for further details of the Council's asset share) was over-stated by 1%, this will result in an increase to the net pension liability of £12.821m.</p> |

| | | |
|---|---|--|
| <p>Doubtful Debt Impairment and Expected Credit Losses</p> | <p>As at 31 March 2022, the Council had an outstanding balance of short-term receivables totalling £60.377m. Against this balance there is an impairment allowance of £14.678m.</p> <p>It is not certain this impairment allowance would be sufficient as the Council cannot assess with certainty which debts will be collected or not.</p> <p>The economic impact of the COVID-19 pandemic has made the estimation of debt impairment more difficult as there is more uncertainty about the economic viability of debtors and their ability to settle their debts.</p> <p>As at 31 March 2022, the Council also had an outstanding balance of long-term receivables and payment in advance totalling £19.279m. Included within this total was £14.249m relating to a long-term finance lease arrangement where the Council is acting as landlord.</p> <p>Having assessed the arrangement and considered past default rates; credit rating reports and customer payments received since 1 April 2022, the potential for credit loss has been estimated as immaterial, so no additional impairment allowance has been recognised.</p> | <p>An understatement of doubtful debts would lead to a future adjustment and impairment to be reflected.</p> <p>The impairment allowances held are based on policies adapted to historic experience and success rates experienced in collection.</p> <p>The nature of the debt and service area have been considered and further review has been carried out to reflect the uncertainty of the collection rates as a result of COVID-19.</p> <p>If collection rates were to deteriorate the Council would need to review its policies on the calculation of its impairment allowance for doubtful debts. Any increase to the impairment allowance would reduce the balance held in the General Fund.</p> |
| <p>Fair Value Measurement</p> | <p>As at 31 March 2022, the fair value of assets carried in the Council's balance sheet was £1,443.773m, whilst the fair value of liabilities was £1,618.891m.</p> <p>When the fair values of financial assets and financial liabilities cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using</p> | <p>The Council uses an investment approach based on a derived market yields to measure the fair value of some of its surplus properties.</p> <p>The significant unobservable inputs used in the fair value measurement include management assumptions</p> |

| | | |
|--|---|---|
| | <p>valuation techniques (e.g. quoted prices for similar assets or liabilities in active markets or on an investment basis). Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values.</p> <p>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.</p> <p>Information about the valuation techniques and inputs used in determining the fair value of the Council's financial assets and liabilities is disclosed in note 35.</p> <p>Further information about the valuation techniques used in determining the fair value of the Council's surplus assets is disclosed in note 29.</p> | <p>regarding rent growth, occupancy levels, bad debt levels, tenant covenant strength, etc</p> <p>Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value. Some of the key variables are described further in note 35.</p> |
|--|---|---|

Note 6: Events after the Balance Sheet Date

The Director of Finance authorised the Statement of Accounts on 29 July 2022. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing as at 31 March 2022, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

There were no adjusting or non-adjusting events after the Balance Sheet date.

Note 7: Expenditure & Funding Analysis

This analysis shows how our annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) in comparison with those resources consumed or earned in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes across our services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

The classification of some Corporate Costs (reported at Outturn) is included in both Continuing Operations and the Provision of Services in the table below, so the total reported for resource management will be different from the figures reported in the Outturn report. There is a similar difference with the Schools and Early Years figures reported in the table below as the Outturn position for Schools is not reported at Outturn. This classification issue does not impact on the surplus reported at year-end (£4.1m).

| Expenditure & Funding Analysis for the year ended 31 March 2022 | Directorate Total as reported for resource management £millions | Adjustment to arrive at the net amount chargeable to the General Fund balance £millions | Net Expenditure Chargeable to the General Fund £millions | Adjustments between Funding and Accounting basis £millions | Net Expenditure in the Comprehensive Income and Expenditure Statement £millions |
|---|--|--|---|---|--|
| Adult Services | 146.000 | -49.841 | 96.159 | 4.688 | 100.847 |
| Children's Services | 106.000 | -18.973 | 87.027 | 9.670 | 96.697 |
| Economic and Community Infrastructure Services | 74.900 | -5.992 | 68.908 | 43.817 | 112.725 |
| Public Health | 1.700 | -5.335 | -3.635 | 1.581 | -2.054 |
| Customers, Digital & Workforce | 16.500 | 3.251 | 19.751 | 3.293 | 23.044 |
| Finance and Governance | 9.800 | 0.722 | 10.522 | -1.128 | 9.394 |
| Corporate Costs (including Contingencies) | 13.400 | -3.753 | 9.647 | -13.050 | -3.403 |
| Accountable Bodies (LEP/SRA/CDS) | 7.400 | -5.007 | 2.393 | 0.077 | 2.470 |
| Schools and Early Years | - | 7.330 | 7.330 | 37.281 | 44.611 |
| Surplus (-) / Deficit on Continuing Operations | 375.700 | -77.598 | 298.102 | 86.229 | 384.331 |
| Other Income & Expenditure | -379.800 | 19.098 | -360.702 | -12.355 | -373.057 |
| Surplus (-) or Deficit on Provision of Services | -4.100 | -58.500 | -62.600 | 73.874 | 11.274 |
| Opening General Fund Balance at 31 March 2021 | | | 156.606 | | |
| Add Surplus (-) on General Fund in Year | | | -62.600 | | |
| Closing General Fund Balance at 31 March 2022 | | | 219.206 | | |

| Expenditure & Funding Analysis for the year ended 31 March 2021 | Directorate Total as reported for resource management (Restated) £millions | Adjustment to arrive at the net amount chargeable to the General Fund balance (Restated) £millions | Net Expenditure Chargeable to the General Fund (Restated) £millions | Adjustments between Funding and Accounting basis (Restated) £millions | Net Expenditure in the Comprehensive Income and Expenditure Statement £millions |
|--|--|--|---|---|---|
| Adult Services | 142.250 | 0.496 | 142.746 | 3.294 | 146.040 |
| Children's Services | 89.620 | -14.714 | 74.906 | 7.139 | 82.045 |
| Economic and Community Infrastructure | 68.625 | 0.684 | 69.309 | 37.437 | 106.746 |
| Public Health | 1.781 | -5.212 | -3.431 | 1.512 | -1.919 |
| Customers, Digital & Workforce | 15.818 | 2.630 | 18.448 | 4.382 | 22.830 |
| Finance and Governance | 7.904 | 3.105 | 11.009 | -2.586 | 8.423 |
| Corporate Costs (including Contingencies) | 17.084 | -9.655 | 7.429 | -5.284 | 2.145 |
| Accountable Bodies (LEP/SRA/CDS) | 2.802 | -0.662 | 2.140 | -1.653 | 0.487 |
| Schools and Early Years | - | 0.645 | 0.645 | 30.921 | 31.566 |
| Surplus (-) / Deficit on Continuing Operations | 345.884 | -22.683 | 323.201 | 75.162 | 398.363 |
| Other Income & Expenditure | -354.900 | -12.180 | -367.080 | 9.650 | -357.430 |
| Surplus (-) or Deficit on Provision of Services | -9.016 | -34.863 | -43.879 | 84.812 | 40.933 |
| Opening General Fund Balance at 31 March 2020 | | | 101.648 | | |
| Reclassification of Schools Budget Deficit to new Adjustment Account at 1 April 2020 | | | 11.079 | | |
| Restated General Fund Balance at 1 April 2020 | | | 112.727 | | |
| Add Surplus (-) on General Fund in Year | | | -43.879 | | |
| Closing General Fund Balance at 31 March 2021 | | | 156.606 | | |

The 2020/21 service headings in the table above (and below in Note 8) have been restated, to ensure consistency with the restated Income & Expenditure Statement - see Note 1: Prior Period Adjustment (Comprehensive Income & Expenditure Statement – Change In Service Reporting) and (Comprehensive Income & Expenditure Statement – Internal Income & Expenditure Reclassification) for further details.

Note 8: Notes to the Expenditure & Funding Analysis

Adjustments between Funding and Accounting Basis

This note provides a reconciliation of the main adjustments to Net Expenditure Chargeable to the General Fund to arrive at the amounts in the Comprehensive Income and Expenditure Statement. An explanation of the main adjustments identified in the tables below is also provided.

2021/22

| Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts | Adjustments for Capital Purposes £millions | Net change for the Pensions Adjustments £millions | Other Differences £millions | Total Adjustments £millions |
|---|---|--|--------------------------------|--------------------------------|
| Adult Services | 0.019 | 4.749 | -0.080 | 4.688 |
| Children's Services | 0.824 | 8.981 | -0.135 | 9.670 |
| Economic and Community Infrastructure | 37.144 | 6.688 | -0.015 | 43.817 |
| Public Health | -0.175 | 1.880 | -0.124 | 1.581 |
| Customers, Digital & Workforce | 3.315 | - | -0.022 | 3.293 |
| Finance and Governance | -1.092 | - | -0.036 | -1.128 |
| Corporate Costs (including Contingencies) | -0.010 | -13.068 | 0.028 | -13.050 |
| Accountable Bodies (LEP/SRA/CDS) | -0.001 | 0.077 | 0.001 | 0.077 |
| Schools and Early Years | 15.380 | 23.762 | -1.861 | 37.281 |
| Net Cost of Services | 55.404 | 33.069 | -2.244 | 86.229 |
| <u>Other Income & Expenditure</u> | | | | |
| Other operating expenditure | 28.198 | - | - | 28.198 |
| Financial and investment income and expenditure | -4.900 | 20.528 | -0.042 | 15.586 |
| Taxation and non-specific grant income and expenditure | -43.503 | - | -12.636 | -56.139 |
| General Fund (Surplus)/Deficit | 35.199 | 53.597 | -14.922 | 73.874 |

2020/21

| Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts | Adjustments for Capital Purposes (Restated) £millions | Net change for the Pensions Adjustments (Restated) £millions | Other Differences (Restated) £millions | Total Adjustments (Restated) £millions |
|---|--|---|---|---|
| Adult Services | 0.016 | 3.265 | 0.013 | 3.294 |
| Children's Services | 0.833 | 5.840 | 0.466 | 7.139 |
| Economic and Community Infrastructure | 33.024 | 4.190 | 0.223 | 37.437 |
| Public Health | 0.001 | 0.914 | 0.597 | 1.512 |
| Customers, Digital & Workforce | 4.244 | 0.000 | 0.138 | 4.382 |
| Finance and Governance | -0.996 | -1.643 | 0.053 | -2.586 |
| Corporate Costs (including Contingencies) | -0.022 | -5.316 | 0.054 | -5.284 |
| Accountable Bodies (LEP/SRA/CDS) | -1.708 | 0.055 | 0.000 | -1.653 |
| Schools and Early Years | 14.178 | 16.181 | 0.562 | 30.921 |
| Net Cost of Services | 49.570 | 23.486 | 2.106 | 75.162 |
| <u>Other Income & Expenditure</u> | | | | |
| Other operating expenditure | 27.981 | 0.000 | 0.000 | 27.981 |
| Financial and investment income and expenditure | -3.205 | 18.411 | 0.096 | 15.302 |
| Taxation and non-specific grant income and expenditure | -47.559 | 0.000 | 13.926 | -33.633 |
| General Fund (Surplus)/Deficit | 26.787 | 41.897 | 16.128 | 84.812 |

Adjustments for Capital Purposes

These adjustments include:

- An adjustment for depreciation, impairment and revaluation gains/losses in the services line, to ensure the costs are not chargeable to the General Fund.
- An adjustment to the Other Operating Expenditure line for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- An adjustment to the Financing and investment income and expenditure line for the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions that are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- An adjustment to the Financing and investment income and expenditure line for loan premium payable in the year but charged to the General Fund over the life of the derecognised loan in line with statutory regulations.
- An adjustment to the Taxation and non-specific grant income and expenditure line for capital grants that represents income not chargeable under generally accepted accounting practices.

Net Change for the Pensions Adjustments

These adjustments include:

- 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 Council as allowed by statute and the replacement with current service costs and past service costs; and
- An adjustment to the Financing and Investment income and expenditure line for the net interest on the defined benefit liability charged to the Comprehensive Income and Expenditure Statement.

Other Differences

These adjustments include differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute, such as:

- The charge under Taxation and non-specific grant income and expenditure for 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.
- The amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements; and
- An adjustment for the in-year deficit of Dedicated Schools Grant (DSG), to ensure the deficit is not chargeable to the General Fund or reported as a negative usable reserve.

Adjustments to arrive at the net amount chargeable to the General Fund balance

These adjustments mostly relate to the service contributions to/from Earmarked reserves reported for resource management that need to be excluded when determining the Net Expenditure Chargeable to the General Fund.

The adjustments also include minor accounting adjustments not reported for resource management, and the removal of internal transactions which although reported for resource management do not meet the definition of income and expenditure because they do not represent an inflow/outflow of economic benefits to/from the Council and they do not result in an increase/decrease in reserves, so the transactions are removed from the CIES. This internal adjustment does not impact on the overall deficit on the provision of service as the total of internal adjustments nets to nil.

Note 9a: Expenditure and Income Analysed by Nature

The Code requires us to provide a disclosure on the nature of expenses and income. The Council's expenditure and income (as reported in the Comprehensive Income and Expenditure Statement) is analysed as follows:

| 2020/21 (Restated) | | 2021/22 |
|-------------------------------|--|-------------------|
| £ millions | Expenditure and Income | £ millions |
| 293.814 | Employee expenses | 315.785 |
| 530.320 | Other service expenses | 558.426 |
| 81.306 | Capital charges (Depreciation/Amortisation/Impairment etc) | 97.036 |
| 39.089 | Interest payments (including pension interest cost) | 40.259 |
| 0.833 | Precepts & levies | 0.849 |
| 27.980 | Loss on disposal of fixed assets | 28.198 |
| 973.342 | Total Expenditure | 1,040.553 |
| -47.188 | Revenue from contracts with service recipients | -61.954 |
| -3.852 | Other external fees and charges | -6.292 |
| -97.740 | Contributions | -138.135 |
| -1.631 | Rental income | -2.311 |
| -2.450 | Interest and investment income | -3.279 |
| -317.581 | Income from Council Tax/ NNDR/ SRA | -343.009 |
| -461.967 | Government grants and contributions | -474.299 |
| -932.409 | Total Income | -1,029.279 |
| 40.933 | Surplus or deficit on the provision of services | 11.274 |

The 2020/21 comparatives have been restated to disaggregate the external fee's/charges and Other Service Income into more specific headings.

Note 9b: Revenue from Contracts with Service Recipients

Amounts included in the Comprehensive Income and Expenditure Statement for contracts with service recipients are set out in the following table. There were no material contracts during 2021/22 with performance obligations, so the income has been recognised when the goods/services have been provided by the Council.

| 2020/21 (Restated) £millions | | 2021/22 £millions |
|------------------------------------|--|----------------------|
| | <u>Continuing Operations</u> | |
| -25.461 | Adult Services | -28.965 |
| -2.562 | Childrens Services | -3.254 |
| -0.107 | Public Health | -0.101 |
| -11.018 | Economic & Community Infrastrucuture Services | -16.141 |
| -1.971 | Customers, Digital & Workforce | -2.651 |
| -0.730 | Finance & Governance | -0.812 |
| -0.101 | Accountable Bodies | - |
| -0.068 | Corporate Costs (inc Contingencies) | -0.235 |
| -2.303 | Schools & Early Years | -4.717 |
| | <u>Provision of Services</u> | |
| -2.866 | Financial and Investment Income and Expenditure - Trading Activities | -5.079 |
| -47.187 | Total Income | -61.954 |

Amounts included in the balance sheet for contracts with service recipients are as follows:

| 2020/21 (Restated) £millions | | 2021/22 £millions |
|------------------------------------|--|----------------------|
| | <u>Receivables which are included in debtors</u> | |
| 6.312 | Adult Services | 5.212 |
| 0.522 | Children's Services | 0.350 |
| 0.019 | Public Health | - |
| 0.019 | Corporate Costs (inc Contingencies) | 0.021 |
| 0.175 | Customers, Digital & Workforce | 0.184 |
| 2.245 | Economic & Community Infrastructure | 3.413 |
| 0.023 | Finance and Governance | 0.106 |
| 0.023 | Schools & Early Years | - |
| 0.200 | Financing Income & Expenditure - Trading | 0.295 |
| 9.538 | Total Receivables from Service Users | 9.581 |

The comparative amounts for 2020/21 in the tables above have been restated to ensure comparability with the service structure reported at Outturn as at 31st March 2022. This restatement has amended the description of some continuing operations but has not altered the total income/balances being reported for 2020/21.

There were £0.133m of credit impairment losses recognised on receivables arising from the Council's contracts with service recipients during the year. There were no material Contract Assets or Liabilities included in the balance sheet for 2021/22 or 2020/21.

Note 10: Segmental Reporting

Segmental Assets

As we report outstanding debt internally to those charged with governance, the Code requires us to present an analysis of the outstanding debt at year-end on a segmental basis. There is a further requirement for us to present a reconciliation of the segmental debt to the total debt reported in the Balance Sheet.

| 2020/21 (Restated) £million | Segmental Analysis - Outstanding Debt | 2021/22 £million |
|-----------------------------------|--|---------------------|
| 6.178 | Adult Services | 1.685 |
| 1.217 | Children's Services | 0.601 |
| 3.721 | Economic and Community Infrastructure | 4.461 |
| 0.110 | Public Health | 0.086 |
| 0.009 | Customers, Digital & Workforce | 0.058 |
| 0.397 | Finance and Governance | 0.386 |
| 0.064 | Schools and Early Years | 0.041 |
| 0.146 | Financial and Investment Income and Expenditure - Trading Activities | 0.256 |
| 11.842 | Total - as reported at Outturn | 7.574 |

| 2020/21 £million | Reconciliation of segmental debt to the total short term receivable and payment in advance reported in the Balance Sheet | 2021/22 £million |
|---------------------|--|---------------------|
| 11.842 | Segmental Debt - as reported at Outturn | 7.574 |
| | <u>Debt - not reportable at Outturn:</u> | |
| 14.845 | Collection Fund Debtor | 17.090 |
| 4.188 | Payments in Advance | 4.492 |
| 5.473 | VAT Debtor | 5.278 |
| 23.617 | Other year-end accrued debt | 30.435 |
| 59.965 | Short-term receivable and payment in advance | 64.869 |

The comparative amounts for 2020/21 in the tables above have been restated to ensure comparability with the service structure reported at Outturn as at 31st March 2022.

Material Items of Income and Expenditure

The Comprehensive Income & Expenditure Statement and the Expenditure & Funding Analysis both provide a measure of surplus or deficit. As the following material items are included in both, we are required to report them on a segmental basis (segmental analysis for Revenue Contracts from Service Recipients can be found in Note 9b).

2021/22

| For the year ended 31 March 2022 | <u>Income</u> | <u>Expenditure</u> | |
|---|--|---|---|
| | Govt Grants & Contributions £millions | IAS19 Employee Benefit costs £millions | Capital Charges (Depreciation etc) £millions |
| Adult Services | -41.815 | 4.749 | 0.111 |
| Children's Services | -66.679 | 8.981 | 0.825 |
| Economic and Community Infrastructure | -24.672 | 6.688 | 51.923 |
| Public Health | -32.906 | 1.880 | - |
| Customers, Digital & Workforce | -0.854 | - | 3.315 |
| Finance and Governance | -3.307 | - | - |
| Corporate Costs (inc Contingencies) | -0.159 | -13.068 | - |
| Accountable Bodies (LEP/SRA/CDS) | -22.070 | 0.077 | 21.761 |
| Schools and Early Years | -180.733 | 23.762 | 17.766 |
| Total Continuing Operations | -373.195 | 33.069 | 95.701 |
| Financing and Investment Income & Expenditure (including Trading) | -1.007 | 20.528 | 0.202 |
| Other Operating Expenditure | - | - | 1.133 |
| Taxation & Non-Specific Grant | -100.097 | - | - |
| Total - Provision of Services | -474.299 | 53.597 | 97.036 |

2020/21

| For the year ended 31 March 2021 | <u>Income</u> | <u>Expenditure</u> | |
|---|--|---|---|
| | Govt Grants & Contributions (Restated) £millions | IAS19 Employee Benefit costs (Restated) £millions | Capital Charges (Depreciation etc) (Restated) £millions |
| Adult Services | -42.450 | 3.265 | 0.054 |
| Children's Services | -60.265 | 5.840 | 0.832 |
| Economic and Community Infrastructure | -9.151 | 4.190 | 36.324 |
| Public Health | -27.092 | 0.914 | 0.001 |
| Customers, Digital & Workforce | -1.722 | - | 3.671 |
| Finance and Governance | -3.151 | -1.643 | - |
| Corporate Costs (inc Contingencies) | -0.122 | -5.316 | - |
| Accountable Bodies (LEP/SRA/CDS) | -28.062 | 0.055 | 25.253 |
| Schools and Early Years | -179.265 | 16.181 | 14.376 |
| Total Continuing Operations | -351.280 | 23.486 | 80.511 |
| Financing and Investment Income & Expenditure (including Trading) | -2.657 | 18.411 | 0.199 |
| Other Operating Expenditure | - | - | 0.595 |
| Taxation & Non-Specific Grant | -108.030 | - | - |
| Total - Provision of Services | -461.967 | 41.897 | 81.305 |

Note 11: Adjustments between Accounting Basis and Funding Basis under Regulation

2021/22

| | General Fund - Schools & Other | Capital Receipts Reserve | Capital Grants & Contributions Unapplied | Total Usable Reserves | Unusable Reserves | Total Authority Reserves |
|--|--------------------------------------|--------------------------------|--|--------------------------|----------------------|--------------------------------|
| | £millions | £millions | £millions | £millions | £millions | £millions |
| Adjustments between accounting basis and funding basis under regulations for the year ended 31 March 2022 | | | | | | |
| Adjustments involving the Capital Adjustment Account: | | | | | | |
| <u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</u> | | | | | | |
| Charges for depreciation/impairment and reval loss of non current assets | 50.925 | - | - | 50.925 | -50.925 | - |
| Impairment of current held for sale assets | 1.133 | - | - | 1.133 | -1.133 | - |
| Amortisation of intangible assets | 0.399 | - | - | 0.399 | -0.399 | - |
| Capital grants and contributions | -43.503 | - | 43.503 | - | - | - |
| Revenue expenditure funded from capital under statute | 3.869 | - | 40.714 | 44.583 | -44.583 | - |
| 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 | 32.773 | - | - | 32.773 | -32.773 | - |
| <u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement</u> | | | | | | |
| Statutory provision for the financing of capital investment | -7.842 | - | - | -7.842 | 7.842 | - |
| Capital expenditure charged against the General Fund | -2.641 | - | - | -2.641 | 2.641 | - |
| Adjustments involving the Capital Receipts Reserve: | | | | | | |
| Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | -4.677 | 4.677 | - | - | - | - |
| Use of the capital receipts reserve to finance new capital expenditure | - | -0.885 | - | -0.885 | 0.885 | - |
| Contribution from the capital receipts reserve towards administration costs of non current asset disposals | 0.102 | -0.102 | - | - | - | - |
| Principal repayments transferred to the capital receipts reserve | - | 0.032 | - | 0.032 | -0.032 | - |
| Adjustments involving the Capital Grants Unapplied Reserve: | | | | | | |
| Use of the capital grants unapplied reserve to finance new capital expenditure | - | - | -84.309 | -84.309 | 84.309 | - |
| Adjustments involving the Pensions Reserve: | | | | | | |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement | 91.065 | - | - | 91.065 | -91.065 | - |
| Employer's pension contributions and direct payments to pensioners payable in the year | -37.468 | - | - | -37.468 | 37.468 | - |

2021/22 (Continued)

| | General Fund - Schools & Other | Capital Receipts Reserve | Capital Grants & Contributions Unapplied | Total Usable Reserves | Unusable Reserves | Total Authority Reserves |
|--|--------------------------------------|--------------------------------|--|--------------------------|----------------------|--------------------------------|
| | £millions | £millions | £millions | £millions | £millions | £millions |
| Adjustments between accounting basis and funding basis under regulations for the year ended 31 March 2022 | | | | | | |
| Adjustments involving the Collection Fund Adjustment Account: | | | | | | |
| Amount by which Council Tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements | -7.354 | - | - | -7.354 | 7.354 | - |
| Amount by which NNDR income credited to the Comprehensive Income and Expenditure Statement is different from NNDR income calculated for the year in accordance with statutory requirements | -5.282 | - | - | -5.282 | 5.282 | - |
| Adjustments involving the Financial Instrument Adjustment Account: | | | | | | |
| Amount by which income and expenditure on financial instruments are charged/credited to the Comprehensive Income and Expenditure Statement is different from the amount calculated for the year in accordance with statutory requirements | -0.045 | - | - | -0.045 | 0.045 | - |
| Adjustments involving the Pooled Investment Funds Adjustment Account: | | | | | | |
| Amount by which the fair value movement on pooled investment funds are charged/credited to the Comprehensive Income and Expenditure Statement is different from the amount calculated for the year in accordance with statutory requirements | -0.669 | - | - | -0.669 | 0.669 | - |
| Adjustments involving the Dedicated Schools Grant Adjustment Account: | | | | | | |
| Amount by which the Dedicated Schools Grant deficit charged to the Comprehensive Income and Expenditure Statement is different from the amount calculated as part of the statutory requirements | 5.374 | - | - | 5.374 | -5.374 | - |
| Adjustment involving the Accumulating Compensated Absences | | | | | | |
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | -2.285 | - | - | -2.285 | 2.285 | - |
| Total adjustments between accounting basis & funding basis under regulations | 73.874 | 3.722 | -0.092 | 77.504 | -77.504 | - |

| | General Fund - Schools & Other | Capital Receipts Reserve | Capital Grants & Contributions Unapplied | Total Usable Reserves | Unusable Reserves | Total Authority Reserves |
|--|--------------------------------------|--------------------------------|--|--------------------------|----------------------|--------------------------------|
| | £millions | £millions | £millions | £millions | £millions | £millions |
| Adjustments between accounting basis and funding basis under regulations for the year ended 31 March 2021 | | | | | | |
| Adjustments involving the Capital Adjustment Account: | | | | | | |
| <u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</u> | | | | | | |
| Charges for depreciation/impairment and reval loss of non current assets | 42.471 | - | - | 42.471 | -42.471 | - |
| Impairment of current held for sale assets | 0.595 | - | - | 0.595 | -0.595 | - |
| Amortisation of intangible assets | 0.458 | - | - | 0.458 | -0.458 | - |
| Capital grants and contributions | -47.559 | - | 47.559 | - | - | - |
| Revenue expenditure funded from capital under statute | 7.070 | - | 30.711 | 37.781 | -37.781 | - |
| 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 | 33.997 | - | - | 33.997 | -33.997 | - |
| <u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement</u> | | | | | | |
| Statutory provision for the financing of capital investment | -6.798 | - | - | -6.798 | 6.798 | - |
| Capital expenditure charged against the General Fund | -1.308 | - | - | -1.308 | 1.308 | - |
| Adjustments involving the Capital Receipts Reserve: | | | | | | |
| Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | -6.146 | 6.146 | - | - | - | - |
| Use of the capital receipts reserve to finance new capital expenditure | - | -1.172 | - | -1.172 | 1.172 | - |
| Contribution from the capital receipts reserve towards administration costs of non current asset disposals | 0.130 | -0.130 | - | - | - | - |
| Principal repayments transferred to the capital receipts reserve | - | 0.031 | - | 0.031 | -0.031 | - |
| Adjustments involving the Capital Grants Unapplied Reserve: | | | | | | |
| Use of the capital grants unapplied reserve to finance new capital expenditure | - | - | -78.604 | -78.604 | 78.604 | - |
| Adjustments involving the Pensions Reserve: | | | | | | |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement | 77.756 | - | - | 77.756 | -77.756 | - |
| Employer's pension contributions and direct payments to pensioners payable in the year | -35.859 | - | - | -35.859 | 35.859 | - |

2020/21 (Continued)

| | General Fund - Schools & Other | Capital Receipts Reserve | Capital Grants & Contributions & Unapplied | Total Usable Reserves | Unusable Reserves | Total Authority Reserves |
|--|--------------------------------------|--------------------------------|--|--------------------------|----------------------|--------------------------------|
| | £millions | £millions | £millions | £millions | £millions | £millions |
| Adjustments between accounting basis and funding basis under regulations for the year ended 31 March 2021 | | | | | | |
| Adjustments involving the Collection Fund Adjustment Account: | | | | | | |
| Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements | 0.802 | - | - | 0.802 | -0.802 | - |
| Amount by which NNDR income credited to the Comprehensive Income and Expenditure Statement is different from NNDR income calculated for the year in accordance with statutory requirements | 13.124 | - | - | 13.124 | -13.124 | - |
| Adjustments involving the Financial Instrument Adjustment Account: | | | | | | |
| Amount by which income and expenditure on financial instruments are charged/credited to the Comprehensive Income and Expenditure Statement is different from the amount calculated for the year in accordance with statutory requirements | -0.046 | - | - | -0.046 | 0.046 | - |
| Adjustments involving the Pooled Investment Funds Adjustment Account: | | | | | | |
| Amount by which the fair value movement on pooled investment funds are charged/credited to the Comprehensive Income and Expenditure Statement is different from the amount calculated for the year in accordance with statutory requirements | 0.267 | - | - | 0.267 | -0.267 | - |
| Adjustments involving the Dedicated Schools Grant Adjustment Account: | | | | | | |
| Amount by which the Dedicated Schools Grant deficit charged to the Comprehensive Income and Expenditure Statement is different from the amount calculated as part of the statutory requirements | 3.656 | - | - | 3.656 | -3.656 | - |
| Adjustment involving the Accumulating Compensated Absences | | | | | | |
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | 2.202 | - | - | 2.202 | -2.202 | - |
| Total adjustments between accounting basis & funding basis under regulations | 84.812 | 4.875 | -0.334 | 89.353 | -89.353 | - |

Note 12: Transfers to/from Earmarked Reserves

| | Balance at 31 March 2020 £millions | Transfers Out 2020/21 £millions | Transfers In 2020/21 £millions | Net Movement 2020/21 £millions | Balance at 31 March 2021 £millions | Transfers Out 2021/22 £millions | Transfers In 2021/22 £millions | Net Movement 2021/22 £millions | Balance at 31 March 2022 £millions |
|--|--|---------------------------------------|--------------------------------------|--------------------------------------|--|---------------------------------------|--------------------------------------|--------------------------------------|--|
| General Fund: | | | | | | | | | |
| Operating Accounts | 1.240 | -0.342 | - | -0.342 | 0.898 | -0.077 | 0.467 | 0.390 | 1.288 |
| Economic Development Fund | 0.112 | -0.446 | 0.481 | 0.035 | 0.147 | -0.033 | 0.487 | 0.455 | 0.602 |
| Reserves for capital purposes | 2.638 | - | 1.112 | 1.112 | 3.750 | -1.040 | 1.000 | -0.040 | 3.710 |
| Invest to Save Fund | 0.416 | - | 0.063 | 0.063 | 0.479 | - | 0.021 | 0.021 | 0.500 |
| Somerset Drug & Alcohol | 0.176 | - | - | - | 0.176 | -0.176 | - | -0.176 | - |
| Public Health Earmarked | 2.744 | -0.332 | 0.649 | 0.317 | 3.061 | - | 0.420 | 0.420 | 3.481 |
| Public Health - Prevention Fund | 0.794 | -0.418 | 0.127 | -0.291 | 0.503 | -0.280 | 0.182 | -0.098 | 0.405 |
| Repairs and Maintenance Fund (inc BMIS) | 0.046 | - | 0.085 | 0.085 | 0.131 | -0.085 | 0.237 | 0.152 | 0.283 |
| Business Rates Retention - County Wide Pot | 3.983 | -2.000 | 0.692 | -1.308 | 2.675 | -1.983 | 1.172 | -0.811 | 1.864 |
| Supply Mutual Fund Reserve | - | - | 0.218 | 0.218 | 0.218 | -0.218 | - | -0.218 | - |
| Somerset and South West Mutual Scheme | 0.179 | - | - | - | 0.179 | -0.347 | 0.218 | -0.129 | 0.050 |
| BSF Bridgwater Equaliation Reserve | 6.564 | - | 1.016 | 1.016 | 7.580 | - | 1.151 | 1.151 | 8.731 |
| Futures for Somerset | 0.144 | -0.002 | 0.030 | 0.028 | 0.172 | -0.008 | 0.030 | 0.022 | 0.194 |
| Elections | 0.548 | -0.002 | 0.253 | 0.251 | 0.799 | -0.801 | 1.035 | 0.234 | 1.033 |
| Somerset Rivers Authority | 0.328 | -0.059 | 0.051 | -0.008 | 0.320 | -0.295 | - | -0.295 | 0.025 |
| Flood Recovery & 20 year plan | 0.151 | -0.049 | 0.030 | -0.019 | 0.132 | -0.046 | 0.010 | -0.036 | 0.096 |
| Superfast Broadband | 0.955 | -0.141 | - | -0.141 | 0.814 | -0.512 | 0.220 | -0.292 | 0.522 |
| Environment Commuted Sums Reserve | 1.865 | -0.027 | 0.028 | 0.001 | 1.866 | -0.041 | 0.027 | -0.014 | 1.852 |
| Local Enterprise Partnership (LEP) | 2.431 | -0.750 | 0.476 | -0.274 | 2.157 | -1.537 | 2.972 | 1.435 | 3.592 |
| SRA Precept 2016/17 | 5.187 | - | 1.878 | 1.878 | 7.065 | -3.581 | 4.471 | 0.890 | 7.955 |
| Children & Learning Commissioning | 0.102 | - | - | - | 0.102 | - | 0.038 | 0.038 | 0.140 |
| S106 funds | 0.653 | - | 0.026 | 0.026 | 0.679 | -0.035 | 0.056 | 0.021 | 0.700 |
| Insurance Fund Reserve | 5.276 | - | 3.094 | 3.094 | 8.370 | - | 0.468 | 0.468 | 8.838 |
| Parking Services | 0.435 | - | 0.509 | 0.509 | 0.944 | -0.500 | 0.777 | 0.277 | 1.221 |
| West Somerset Opportunities Fund reserve | 1.063 | -0.317 | 0.105 | -0.212 | 0.851 | -0.220 | - | -0.220 | 0.631 |
| Permitting - Traffic | - | - | 0.403 | 0.403 | 0.403 | - | 0.822 | 0.822 | 1.225 |
| Supported Bus Service | - | - | 0.443 | 0.443 | 0.443 | -0.093 | - | -0.093 | 0.350 |
| Social Care Volatility | 3.980 | - | 2.588 | 2.588 | 6.568 | -2.245 | 1.044 | -1.201 | 5.367 |
| Short Life Asset Fin | - | - | 2.040 | 2.040 | 2.040 | -2.212 | 1.000 | -1.212 | 0.828 |
| Budget Equalisation | - | -10.323 | 18.543 | 8.220 | 8.220 | -3.963 | 8.360 | 4.397 | 12.617 |
| Budget Equalisation - COVID-19 Impact | - | - | 9.500 | 9.500 | 9.500 | -9.500 | - | -9.500 | - |
| Sub-Total | 42.010 | -15.208 | 44.440 | 29.232 | 71.242 | -29.828 | 26.686 | -3.142 | 68.100 |

Continued:

| | Balance at 31 March 2020 £millions | Transfers Out 2020/21 £millions | Transfers In 2020/21 £millions | Net Movement 2020/21 £millions | Balance at 31 March 2021 £millions | Transfers Out 2021/22 £millions | Transfers In 2021/22 £millions | Net Movement 2021/22 £millions | Balance at 31 March 2022 £millions |
|---|--|---------------------------------------|--------------------------------------|--------------------------------------|--|---------------------------------------|--------------------------------------|--------------------------------------|--|
| s31 Collection Fund Compensation | - | - | 10.138 | 10.138 | 10.138 | -5.845 | - | -5.845 | 4.293 |
| Climate Emergency | - | -0.026 | 1.000 | 0.974 | 0.974 | -0.880 | 0.500 | -0.380 | 0.594 |
| COVID-19 Support | 15.563 | -15.563 | 5.051 | -10.512 | 5.051 | -5.051 | - | -5.051 | - |
| Workforce Resilience | 1.168 | - | 0.086 | 0.086 | 1.254 | -0.171 | - | -0.171 | 1.083 |
| Improving Lives Programme (ILP) | 2.248 | -0.360 | 0.042 | -0.318 | 1.930 | -0.238 | 0.002 | -0.236 | 1.694 |
| Social Care Transformation | - | -0.759 | 4.472 | 3.713 | 3.713 | -1.000 | 1.774 | 0.774 | 4.487 |
| VPCR Reserve | - | - | 0.659 | 0.659 | 0.659 | - | 0.325 | 0.325 | 0.984 |
| Corporate Priorities | 5.946 | -4.831 | 1.950 | -2.881 | 3.065 | -2.871 | 5.030 | 2.159 | 5.224 |
| Funding Volatility | 2.390 | - | 1.345 | 1.345 | 3.735 | -1.167 | 7.349 | 6.182 | 9.917 |
| Adult Social Care Transforming | - | - | - | - | - | - | 0.244 | 0.244 | 0.244 |
| Economic Recovery | - | - | - | - | - | -0.409 | 6.000 | 5.591 | 5.591 |
| Building Local Capacity | - | - | - | - | - | - | 1.505 | 1.505 | 1.505 |
| Childrens Grant Reserve | - | - | - | - | - | - | 0.131 | 0.131 | 0.131 |
| ASC Grants | - | - | - | - | - | - | 20.887 | 20.887 | 20.887 |
| Domestic Abuse Statutory Duty | - | - | - | - | - | - | 0.287 | 0.287 | 0.287 |
| ASC Anticipatory Care | - | - | - | - | - | - | 8.200 | 8.200 | 8.200 |
| ASC Mental Health Services | - | - | - | - | - | - | 2.700 | 2.700 | 2.700 |
| ASC Prevention Services | - | - | - | - | - | - | 0.500 | 0.500 | 0.500 |
| ASC Adult Social Care/Hospital Discharge | - | - | - | - | - | - | 3.791 | 3.791 | 3.791 |
| ASC Childrens Services | - | - | - | - | - | - | 12.000 | 12.000 | 12.000 |
| Somerset Works (non ESF) | - | - | - | - | - | - | 1.174 | 1.174 | 1.174 |
| Bus Capacity Grant | - | - | - | - | - | - | 0.264 | 0.264 | 0.264 |
| ICT Project Reserve | - | - | - | - | - | - | 0.564 | 0.564 | 0.564 |
| Business Support System (ERP) | - | - | - | - | - | - | 7.800 | 7.800 | 7.800 |
| Ukrainian Resettlement | - | - | - | - | - | - | 0.250 | 0.250 | 0.250 |
| Other Service Reserves | 0.204 | -0.119 | 0.381 | 0.262 | 0.466 | -0.213 | 3.049 | 2.836 | 3.302 |
| Total excluding School Balances | 69.529 | -36.866 | 69.564 | 32.698 | 102.227 | -47.673 | 111.012 | 63.339 | 165.566 |
| Balances held by schools under a scheme of delegation | 17.085 | -16.106 | 23.527 | 7.421 | 24.506 | - | 2.032 | 2.032 | 26.538 |
| Total | 86.614 | -52.972 | 93.091 | 40.119 | 126.733 | -47.673 | 113.044 | 65.371 | 192.104 |

This note shows 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 in 2021/22.

Note 13: Other Operating Expenditure

| 2020/21 £millions | | 2021/22 £millions |
|----------------------|---|----------------------|
| 27.980 | (Gain)/losses on the disposal of non-current assets | 28.198 |
| 0.595 | Loss on the revaluation of current assets held for sale | 1.133 |
| | Levies: | |
| 0.716 | - Environment Agencies | 0.732 |
| 0.117 | - Devon and Severn IFCA | 0.117 |
| 29.408 | | 30.180 |

The loss on disposal of non-current assets during 2021/22 was predominantly due to schools converting to academy status (£30.057m loss), where the full value of the asset is disposed for nil consideration. This loss was partially offset by the sale of various land and buildings.

Note 14: Financing and Investment Income and Expenditure

This includes interest from temporarily investing the Council's revenue balances, interest received from our long-term investment in Pooled Property Funds the surplus/deficit on our trading activities and the financing income element of a finance lease agreement with Somerset Care Ltd. The surplus on trading activities has been restated – see Note 1 for further details.

| 2020/21 (Restated) £millions | | 2021/22 £millions |
|------------------------------------|---|----------------------|
| 19.665 | Interest payable and similar charges | 19.731 |
| 18.411 | Net pensions interest cost (on the defined liability) | 20.528 |
| -2.450 | Interest receivable and similar income | -3.279 |
| 3.147 | Deficit from trading activities | 2.890 |
| 38.773 | | 39.870 |

Note 15: Taxation and Non-Specific Grant Income

| 2020/21 £millions | | 2021/22 £millions |
|----------------------|-----------------------------------|----------------------|
| -254.906 | Council Tax income | -272.674 |
| -60.112 | National Non-Domestic Rates | -67.775 |
| -2.563 | Somerset Rivers Authority Precept | -2.561 |
| -60.471 | Non-ringfenced government grants | -56.594 |
| -47.559 | Capital grants and contributions | -43.503 |
| -425.611 | | -443.107 |

Note 16: Surplus or deficit on revaluation of fixed assets

| 2020/21 £millions | | 2021/22 £millions |
|----------------------|---|----------------------|
| -41.499 | Gains (-) credited to the Revaluation Reserve | -53.455 |
| 9.825 | Losses charged to the Revaluation Reserve | 10.168 |
| <u>-31.674</u> | Total Gain (-) / Loss to the Revaluation Reserve | <u>-43.287</u> |

Note 17: Pooled Budgets

The Council has several arrangements that meet the definition of a Pooled Budget. A pooled budget is a type of partnership arrangement whereby local authorities and NHS organisations contribute an agreed level of resource into a single pot (the 'pooled budget') that is then used to commission or deliver health and social care services. Section 75 of the NHS Act 2006 requires that one of the partners is nominated as the host of the pooled budget and this body is then responsible for the budget's overall accounts and audit.

In the following three areas, we provide the same service, and share our resources to get better value for money and service provision. As lead authority we are acting as principal (and therefore recognising the full income and expenditure in our accounts) in line with the requirements of IFRS15 for these arrangements.

The **Integrated Community Equipment Service's** pooled budget is used to provide community equipment to Council and Somerset CCG clients. Under the terms of this arrangement, the Council is responsible for contracting with the equipment provider but both parties can procure the equipment they require. Unanimous consent from both parties is not required, so no joint control exists.

Income and expenditure for the year are as follows:

| 2020/21 £millions | Integrated Community Equipment Service (previously known as the Joint Equipment Service) | 2021/22 £millions |
|----------------------|---|----------------------|
| | Income from: | |
| -1.728 | Adults and Health Service | -1.796 |
| -1.469 | Somerset Clinical Commissioning Group (Including Continuing Healthcare Income) | -1.199 |
| -1.563 | Other Grant Income | -1.543 |
| <u>-4.760</u> | Total income | <u>-4.538</u> |
| | Less the following spending: | |
| 4.882 | Equipment, delivery costs, minor work | 4.679 |
| 0.099 | Management and administration | 0.096 |
| <u>4.981</u> | Total spending | <u>4.775</u> |
| <u>0.221</u> | Overspending or underspending (-) | <u>0.237</u> |

The **Learning Disabilities Service's** pooled budget supports people with a learning disability to improve their quality of life. Under the terms of this arrangement, hosted by the Council, the Somerset Clinical Commissioning Group makes contributions to the pooled budget which are then used to purchase Learning Disability services. Funding decisions are made by the Council based on the eligibility criteria which is set nationally.

Income and expenditure for the year are as follows:

| 2020/21 £millions | Learning Disabilities Service | 2021/22 £millions |
|------------------------------------|--|------------------------------------|
| | Income from: | |
| -63.813 | Adults and Health Service | -65.395 |
| -22.179 | Somerset Clinical Commissioning Group | -23.524 |
| | Somerset Partnership | |
| -5.801 | Income from charges and grant income | -5.892 |
| <u>-91.793</u> | Total income | <u>-94.811</u> |
| | Less the following spending: | |
| 30.072 | Residential services | 29.771 |
| 35.906 | Supported housing | 38.542 |
| 6.380 | Day services | 8.800 |
| 17.727 | Domiciliary Care | 17.926 |
| 2.034 | Community teams | 2.038 |
| <u>92.119</u> | Total spending | <u>97.077</u> |
| <u>0.326</u> | Overspending or underspending (-) | <u>2.266</u> |

The **Carers Pooled Budget** arrangement is used to jointly commission the provision of Carers Support Services. It is a joint operation with the Council and Somerset Clinical Commissioning Group. The Council acts as the lead body, so recognises the full income and expenditure for the arrangement.

Income and expenditure for the year are as follows:

| 2020/21 £millions | Carers | 2021/22 £millions |
|------------------------------------|--|------------------------------------|
| | Income from: | |
| -0.224 | Adults and Health Service | -0.224 |
| <u>-0.231</u> | Somerset Clinical Commissioning Group | <u>-0.231</u> |
| -0.455 | Total income | <u>-0.455</u> |
| | Less the following spending: | |
| 0.377 | Universal Carers Support Service | 0.377 |
| 0.019 | Carers Support Worker Salary/Running Costs | 0.015 |
| <u>0.048</u> | CAMHS Carers Assessment Workers | <u>0.048</u> |
| 0.444 | Total spending | <u>0.440</u> |
| <u>-0.011</u> | Overspending or underspending (-) | <u>-0.015</u> |

Another area where the Council works with the Somerset Clinical Commissioning Group is the **Better Care Fund**, which was established by the Government to provide funds to local areas to support the integration of health and social care and to seek to achieve the National Conditions and Local Objectives. It is a requirement of the Better Care Fund that NHS Somerset Clinical Commissioning Group and Somerset County Council establish a pooled fund for this purpose, which has been achieved in 2021/22 through a signed agreement under Section 75 of the National Health Service Act 2006. Somerset County Council received additional funding in 2021/22 through the improved Better Care Fund, which has been pooled as part of the Section 75 agreement.

The Council accounts for its share of the assets, liabilities, income, and expenditure of the pool as determined by the pooled budget agreement.

This table shows the total actual expenditure (excluding the CCG's contribution towards the Carers Pooled Budget already included in the table above) incurred by the Better Care Fund:

| 2020/21 | | Better Care Fund | 2021/22 | |
|--------------------------------|---------------------------|---|--------------------------------|---------------------------|
| Gross Expenditure £millions | Gross Income £millions | | Gross Expenditure £millions | Gross Income £millions |
| 27.638 | -27.638 | Somerset County Council | 27.638 | -27.638 |
| 40.619 | -40.619 | NHS Somerset Clinical Commissioning Group (CCG) | 42.780 | -42.780 |
| 68.257 | -68.257 | Total | 70.418 | -70.418 |

Any surplus or deficit generated from the arrangement is the responsibility of the respective partner to whom it is attributed and is shared in proportion to the funding. The partner authorities are responsible for managing the individual schemes for which they have lead responsibility.

Note 18: Members' Allowances

The allowances paid to the Council's Members during the year are shown below.

| 2020/21 £millions | | 2021/22 £millions |
|----------------------|----------------------------------|----------------------|
| 0.634 | Basic Allowance | 0.636 |
| 0.277 | Special Responsibility Allowance | 0.282 |
| 0.004 | Travel and Subsistence Expenses | 0.009 |
| 0.003 | Payments to Co-optees | 0.003 |
| 0.918 | | 0.930 |

Note 19: Senior Officers' Remuneration

Under regulations, the Council must show the number of the Council's staff who are paid more than £50,000 a year. This is shown in the table below. Pay includes:

- Salary, not including employer's pension contributions;
- Taxable travel and other expenses; and
- Non-taxable payments when employment ends.

Table 1 – Staff paid more than £50,000 (shown in £5,000 bands) for the financial year ended 31 March 2022

| 2020/21 | | Employee pay bands | 2021/22 | |
|---------|-------------|----------------------|---------|-------------|
| Schools | Non-schools | | Schools | Non-schools |
| 46 | 42 | £50,000 to £54,999 | 64 | 37 |
| 50 | 33 | £55,000 to £59,999 | 43 | 37 |
| 33 | 11 | £60,000 to £64,999 | 33 | 13 |
| 16 | 2 | £65,000 to £69,999 | 26 | 2 |
| 5 | 20 | £70,000 to £74,999 | 7 | 18 |
| 10 | 6 | £75,000 to £79,999 | 6 | 3 |
| 5 | - | £80,000 to £84,999 | 3 | 6 |
| 3 | 4 | £85,000 to £89,999 | 1 | 1 |
| 1 | 6 | £90,000 to £94,999 | 1 | 6 |
| 1 | 1 | £95,000 to £99,999 | - | 1 |
| 1 | - | £100,000 to £104,999 | 2 | 3 |
| 1 | 2 | £105,000 to £109,999 | 2 | 2 |
| - | 1 | £110,000 to £114,999 | - | 1 |
| - | 1 | £115,000 to £119,999 | - | - |
| - | - | £120,000 to £124,999 | - | 1 |
| - | 2 | £125,000 to £129,999 | - | 1 |
| - | 3 | £130,000 to £134,999 | - | 4 |
| - | - | £135,000 to £139,999 | - | - |
| - | - | £145,000 to £149,999 | - | 1 |
| - | - | £160,000 to £164,999 | - | - |
| - | 1 | £165,000 to £169,999 | - | 1 |
| - | 1 | £175,000 to £179,999 | - | - |

Having met the criteria of the CIPFA guidance notes, the following tables set out the salaries and wages of the Council's senior officers earned during 2021/22 and 2020/21.

In line with guidance, officers whose salary is £150,000 or more have been named.

Table 2 – Actual salary and benefits paid for the financial year ended 31 March 2022

| Post holder information (Post title and name) | Salary (including fees and allowances) | Compensation for loss of office | Total wages and benefits but not including pension contributions 2021/22 | Employer's pension contributions | Total wages and benefits including pension contributions 2021/22 |
|--|---|------------------------------------|--|--|--|
| | £ | £ | £ | £ | £ |
| Head of paid service: | | | | | |
| Patrick Flaherty | 166,900 | - | 166,900 | 30,200 | 197,100 |
| Statutory chief officers or those who report directly to the head of paid service: | | | | | |
| - Lead Commissioner Adults & Health | 130,500 | - | 130,500 | 23,600 | 154,100 |
| - Director and Lead Commissioner ECI | 130,500 | - | 130,500 | 23,600 | 154,100 |
| - Director of Children's Services | 130,100 | - | 130,100 | 23,600 | 153,700 |
| - Director of Public Health | 126,000 | - | 126,000 | 18,100 | 144,100 |
| - Director of Finance & Governance | 123,300 | - | 123,300 | 22,300 | 145,600 |
| - Director of Corporate Affairs - <i>left Nov 21 (see note 1)</i> | 71,800 | 30,000 | 101,800 | 11,800 | 113,600 |
| - Director of Customer, Digital & Workforce | 101,600 | - | 101,600 | 18,400 | 120,000 |
| - Programme Director - Left Feb 22 (see note 2) | 146,300 | - | 146,300 | 4,200 | 150,500 |
| - Programme Director - Started Feb 22 (see note 3) | 97,100 | - | 97,100 | 17,600 | 114,700 |
| Non-statutory chief officers who are directly accountable to the local authority themselves | | | | | |
| - Group Manager Community Governance / Monitoring Officer | 80,900 | - | 80,900 | 14,600 | 95,500 |
| - County Solicitor | 80,900 | - | 80,900 | 14,600 | 95,500 |

1. The Director of Corporate Affairs left the Council in November 2021, The position has been removed from the Council structure, and their responsibilities are now being covered by the Director of Customer, Digital and Workforce.
2. Previous Programme Director left in Feb 2022 with a new employee appointed in Feb 2022.
3. The £114,700 reported in the table above, includes £78,800 (Salary) and £14,300 (Employer pension contributions) earned by the new Programme Director in their previous role (from 1st April 21 to 31st January 22)
There were no benefits in kind paid during 2021/22.

Table 3 – Actual salary and benefits paid for the financial year ended 31 March 2021

| Post holder information (Post title and name) | Salary (including fees and allowances) | Compensation for loss of office | Total wages and benefits but not including pension contributions 2020/21 | Employer's pension contributions | Total wages and benefits including pension contributions 2020/21 |
|--|---|------------------------------------|--|--|--|
| | £ | £ | £ | £ | £ |
| Head of paid service: | | | | | |
| Patrick Flaherty | 166,900 | - | 166,900 | 30,200 | 197,100 |
| Statutory chief officers or those who report directly to the head of paid service: | | | | | |
| - Programme Director - Carlton Brand | 178,300 | | 178,300 | 4,300 | 182,600 |
| - Director of Children's Services | 130,100 | - | 130,100 | 23,600 | 153,700 |
| - Lead Commissioner Adults & Health | 129,600 | | 129,600 | 23,500 | 153,100 |
| - Director of Finance | 119,000 | | 119,000 | 21,500 | 140,500 |
| - Director of Public Health | 126,000 | - | 126,000 | 18,100 | 144,100 |
| - Director and Lead Commissioner ECI | 130,500 | - | 130,500 | 23,600 | 154,100 |
| - Director of Corporate Affairs | 105,800 | - | 105,800 | 19,200 | 125,000 |
| - Director of HR & Organisational Development | 94,600 | - | 94,600 | 17,100 | 111,700 |
| Non-statutory chief officers who are directly accountable to the local authority themselves | | | | | |
| Group Manager Community Governance / Monitoring Officer | 79,500 | - | 79,500 | 14,400 | 93,900 |
| County Solicitor | 79,500 | - | 79,500 | 14,400 | 93,900 |

There were no benefits in kind paid during 2020/21.

Table 4 – Total number and value of exit packages for the financial year ended 31 March 2022

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

| Exit package cost band (inc. special payments) | Number of compulsory redundancies | | Number of other departures agreed | | Total number of exit packages by cost band | | Total cost of exit packages in each cost band | |
|---|--------------------------------------|---------|--------------------------------------|---------|---|---------|--|----------------------|
| | 2020/21 | 2021/22 | 2020/21 | 2021/22 | 2020/21 | 2021/22 | 2020/21 £millions | 2021/22 £millions |
| £0 - £20,000 | 1 | 1 | 2 | 18 | 3 | 19 | 0.024 | 0.149 |
| £20,001 - £40,000 | - | - | 3 | 2 | 3 | 2 | 0.081 | 0.057 |
| £40,001 - £60,000 | - | - | - | 1 | - | 1 | - | 0.042 |
| £60,001 - £80,000 | - | - | 1 | - | 1 | - | 0.063 | - |
| £80,001 - £100,000 | - | - | - | - | - | - | - | - |
| £100,001 - £150,000 | - | - | 1 | - | 1 | - | 0.111 | - |
| £150,001 - £200,000 | - | - | - | 1 | - | 1 | - | 0.183 |

Note 20: Termination Benefits

The Council terminated the contracts of 23 posts in 2021/22, incurring liabilities of £0.431 million. The redundancy total includes £0.427 million payable for 22 posts which were terminated by voluntary redundancy or early retirement. A further £0.003 million was paid for 1 post that was given compulsory redundancy. The £0.431 million can be split between teaching and non-teaching staff as follows:

Non-teaching

Terminations of £0.365 million, were due to organisation wide reduction within the Council (11).

Teaching

The Council terminated the contract of 12 teacher in 2021/22, incurring liabilities of £0.066 million. These terminations were for other termination reasons rather than compulsory.

Note 21: Fees for External Audit Services

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims, statutory inspections and to non-audit services provided by the Council's external auditors:

| 2020/21 £millions | | 2021/22 £millions |
|----------------------|--|----------------------|
| | <u>Fees payable to Grant Thornton, appointed under the Local Audit & Accountability Act 2014</u> | |
| 0.127 | – Main audit (proposed for 2021-22 audit) | 0.144 |
| 0.006 | – Grant claims | 0.008 |
| - | – Additional audit fees in relation to 2019/20 (approved by PSAA) | 0.041 |
| 0.133 | | 0.193 |

Note 22: Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). An element of DSG is recouped by the Department to fund academy schools in the Council's area. DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2011. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Under the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2020, any local authority with a deficit on its school budget must charge the amount of the deficit to an unusable reserve (Dedicated Schools Grant Adjustment Account) established solely for the purpose of recognising deficits in its school's budget. Any in-year deficits, during the period of the regulation are transferred to this unusable reserve to neutralise the impact on the General Fund.

Details of the deployment of DSG receivable for 2021/22 are shown in the following table:

| | Central spending £millions | Individual Schools Budget £millions | Total £millions |
|---|----------------------------------|---|--------------------|
| Final Dedicated Schools Grant for 2021/22 - before Academy and High Needs Recoupment | | | -438.894 |
| Academy and High Needs figure recouped for 2021/22 | | | 223.841 |
| Total Dedicated Schools Grant after Academy and High Needs recoupment for 2021/22 | | | -215.053 |
| Plus: Brought Forward from 2020/21 | | | - |
| Less: Carry Forward to 2022/23 agreed in advance | | | - |
| Agreed initial budgeted distribution in 2021/22 | -91.499 | -123.554 | -215.053 |
| In year adjustments | - | 0.200 | 0.200 |
| Final budgeted distribution for 2021/22 | -91.499 | -123.354 | -214.853 |
| Less actual central expenditure | 96.673 | - | 96.673 |
| Less Actual ISB deployed to schools | - | 123.554 | 123.554 |
| Plus Local Authority contribution for 2021/22 | - | - | - |
| In Year Carry-forward to 2022/23 | 5.174 | 0.200 | 5.374 |
| DSG Unusable Reserve at the end of 2020/21 | | | 14.735 |
| Addition to DSG Unusable Reserve at the end of 2021/22 | | | 5.374 |
| New DSG position at the end of 2021/22 | | | 20.109 |

The in-year adjustment of £0.200m reported in the table above is the correction of a prior year adjustment that had been recognised in error (between DSG and the Schools General Fund). Further details of the Dedicated Schools Grant Adjustment Account can be found in Note 44: Unusable Reserves.

The total DSG allocation for 21/22 in the table above, includes a late Early Years funding adjustment for 20/21, that reduced the amount of DSG received in 21/22.

Note 23: Grant Income

The Council credited the following grants, capital contributions and capital donations to the Comprehensive Income and Expenditure Statement in 2021/22:

| 2020/21 £millions | | 2021/22 £millions |
|---|--|----------------------|
| Credited to Taxation and Non-Specific Grant Income | | |
| <u>Revenue Grants</u> | | |
| -6.174 | - Revenue Support Grant | -6.209 |
| -0.134 | - Inshore Fisheries Grant | -0.134 |
| -2.039 | - New Homes Bonus | -1.246 |
| -14.769 | - COVID 19 Support Grant | -10.852 |
| -13.540 | - Business Rates Cap | -8.884 |
| -0.687 | - Rights to Free Travel | -0.837 |
| -3.972 | - Building Schools for the Future | -3.888 |
| -14.705 | - Adult Social Care Support Grant | -17.959 |
| -0.358 | - Local Reform and Community Voices Grant | -0.358 |
| -2.403 | - Rural Services Delivery Grant | -2.521 |
| -1.690 | - Council Tax Income Guarantee Scheme | -3.705 |
| -60.471 | | -56.594 |
| <u>Capital Grants</u> | | |
| -3.172 | - Standards Fund Capital Grant | -3.224 |
| -27.169 | - Department for Transport Capital Grant | -26.378 |
| -12.080 | - LEP | -0.105 |
| -1.751 | - Dept. Housing, Communities and Local Govt. | - |
| - | - Dept for Business, Energy & Industrial Strategy | -4.040 |
| - | - Building Digital UK | -3.325 |
| - | - European Regional Development Fund | -1.070 |
| - | - Rural Development Programme for England | -2.147 |
| -3.387 | - Other capital grants / Contributions (including developer S106 income) | -3.214 |
| -47.559 | | -43.503 |
| -108.030 | Total Grants Credited to Taxation & Non-Specific Grants | -100.097 |

| 2020/21 £millions | | 2021/22 £millions |
|----------------------|--|----------------------|
| | Credited to Services | |
| | <u>Revenue Grants</u> | |
| -205.386 | - Dedicated Schools Grant | -214.106 |
| -3.556 | - Standards Fund | -3.956 |
| -8.608 | - Pupil Premium Grant | -8.144 |
| -0.675 | - Music Education Grant | -0.673 |
| -0.500 | - LEP - Start Up Fund | -0.500 |
| -27.534 | - LEP - Growth Hub | -29.810 |
| -0.095 | - Adoption Support Grant | -0.099 |
| -1.893 | - Sixth Form Funding (S6F) | -2.048 |
| -2.401 | - Primary PE and Sports Grant | -2.322 |
| -0.473 | - Youth Justice | -0.513 |
| -1.102 | - Troubled Families | -1.206 |
| -1.274 | - Step Up Social Work | -0.378 |
| -0.570 | - School Improvement Grant | -0.513 |
| - | - Social Workers in School Scale Up | -0.398 |
| -3.283 | - Universal Infants Free School Meals | -3.162 |
| -6.728 | - Teachers Pay Grant | -0.047 |
| -1.185 | - Children and Young People services – other grants | -0.909 |
| -1.193 | - Independent Living Fund | -1.193 |
| -21.048 | - Public Health grant | -21.284 |
| -22.685 | - Care Act | -22.685 |
| - | - Domestic Abuse | -1.042 |
| -0.302 | - Adult services – other grants | -0.356 |
| -0.291 | - DEFRA - AONB & LARC | -0.271 |
| -0.145 | - Triple C Project | -0.492 |
| - | - Co-Adapt Project | -0.590 |
| - | - Kickstart | -0.307 |
| - | - Farming in Protected Landscapes | -0.215 |
| - | - Somerset Skills for Growth | -0.212 |
| - | - Holiday Activities & Food Programme | -1.495 |
| - | - Community Renewal Fund | -0.509 |
| - | - Local Transport Authority Bus Capacity Grant | -0.381 |
| - | - Universal Drug Treatment | -0.241 |
| - | - Staying Put Implementation Grant | -0.220 |
| - | - Adults Obesity | -0.212 |
| -0.855 | - Bus Service Operators Grant | -0.454 |
| -2.867 | - Building Schools for the Future contributions | -2.950 |
| -0.588 | - West Somerset Opportunities Area Fund (WSOA) | -0.895 |
| - | - Service Transformation Funding | -0.700 |
| - | - DCLG Funding for Successful Outcomes (PbR) | -0.419 |
| - | - Department for Transport Capital Grant (funding REFCUS) | -3.978 |
| -0.767 | - Economic, Communities & Infrastructure services - other grants | -1.320 |
| -1.538 | - Other services grants | -5.180 |
| | <u>COVID-19 Grants</u> | |
| -1.466 | - COVID 19 Support Grant | - |
| -1.902 | - Winter Grant Scheme | -1.998 |
| -0.693 | - Funding for Clinically Extremely Vulnerable | -0.943 |
| -17.277 | - Infection Control & Rapid Testing Grant | -12.414 |
| -5.093 | - Outbreak Management Grant | -8.765 |
| -3.620 | - Loss of Income Grant | -0.905 |
| - | - Household Support Fund | -3.770 |
| -2.146 | - Various Schools Grants | -2.430 |
| -0.957 | - Workforce Capacity Fund | -5.018 |
| -0.508 | - Test, Track & Trace Grant | - |
| -0.804 | - School and College Transport | -0.559 |
| -0.573 | - Emergency Assistant Grant for Food & Essential Supplies | - |
| -1.356 | - Other COVID-19 related grants | -1.017 |
| -353.937 | Total Grants Credited To Service | -374.202 |
| -461.967 | Total Grants Credited To Comprehensive Income & Expenditure | -474.299 |

Note 24: Partnerships and Related Party Transactions

The Council is required to disclose material transactions with related parties; these are bodies or individuals that have the potential to control or significantly influence the Council or to be controlled or significantly 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 Government

The UK Government has the ability to control or exercise significant influence over the general operations of the Council. It is responsible for providing the statutory framework, within which the Council operates, it 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. The grants received from Central Government are disclosed in Note 23.

Officers

Officers of the Council are bound by the rules and procedures of the Council's Constitution. Officers are required to register any personal interests which may affect their judgement as an employee of the Council. Senior officers were also required to declare transactions with the Council. No material transactions have been identified.

Members

Elected Members of the Council have direct control over the Council's financial and operating policies. The total of Members' allowances paid in 2021/22 is shown in Note 18. The Members' Code of Conduct requires Members to declare interests in related parties in the Register of Members' Interests. The Register is available on the Council's website and is open to public inspection at County Hall during office hours. Members were also asked to declare separately transactions with the Council. No material transactions between the Council and businesses in which members have a controlling interest have been identified.

A number of Members are also members of other local public bodies, including district, parish and town councils, academies and NHS trusts. No other material transactions between the Council and these organisations (in which members have a controlling interest within the council) have been identified.

Other Related Parties

The Council has significant influence over other parties due to the considerable proportion of business provided to them by the Council. These being:

- Discovery, a social enterprise formed from a ground-breaking partnership between Dimensions and Somerset County Council, together with customers, family carers and staff. In 2021/22 the Council paid £27.8 million to Discovery.
- Various local companies (19 in total) that provide transport on behalf of the Council. The total paid to these companies during 2021/22 was £8.919 million
- Futures for Somerset, a long-term strategic partnership, is an associate of the Council, in which the Council has a 10% share by shareholding and influence over its long-term plans. In 2021/22 the Council paid £1.330 million to Futures for Somerset.

Note 25: Property, Plant & Equipment

| Movements in 2021/22 | | | | | | |
|--|-------------------------------------|--|------------------------------------|-----------------------------|--|--------------------|
| | Other Land & Buildings £millions | Vehicles, Plant & Equipment £millions | Infrastructure Assets £millions | Surplus Assets £millions | Assets Under Construction £millions | Total £millions |
| Cost or valuation | | | | | | |
| At 1 April 2021 | 444.611 | 59.005 | 803.109 | 3.225 | 30.542 | 1,340.493 |
| Additions | 16.747 | 4.572 | 37.222 | 0.009 | 6.395 | 64.944 |
| Disposals | -31.970 | -6.535 | - | - | - | -38.505 |
| Reclassifications | 25.663 | - | 0.144 | 0.868 | -28.353 | -1.678 |
| Revaluation Increase/decrease (-): | | | | | | |
| - to Revaluation Reserve | 33.226 | - | - | 1.058 | - | 34.284 |
| - to Surplus/Deficit on the provision of service | -13.577 | - | - | 0.019 | - | -13.558 |
| At 31 March 2022 | <u>474.700</u> | <u>57.042</u> | <u>840.475</u> | <u>5.179</u> | <u>8.584</u> | <u>1,385.980</u> |
| Depreciation and impairments | | | | | | |
| At 1 April 2021 | -8.633 | -33.198 | -313.581 | -0.048 | -0.037 | -355.497 |
| Charge for 2021/22 | -8.531 | -8.019 | -20.641 | -0.172 | - | -37.363 |
| Disposals | 0.112 | 6.302 | - | - | - | 6.414 |
| Reclassifications | -0.017 | - | - | 0.044 | 0.036 | 0.063 |
| Revaluation Increase/decrease (-): | | | | | | |
| - to Revaluation Reserve | 8.957 | - | - | 0.046 | - | 9.003 |
| - to Surplus/Deficit on the provision of service | - | - | - | - | - | - |
| At 31 March 2022 | <u>-8.112</u> | <u>-34.916</u> | <u>-334.222</u> | <u>-0.130</u> | <u>-0.001</u> | <u>-377.380</u> |
| Balance sheet amount at 1 April 2021 | | | | | | |
| | 435.979 | 25.807 | 489.528 | 3.177 | 30.505 | 984.997 |
| Balance sheet amount at 31 March 2022 | | | | | | |
| | 466.588 | 22.127 | 506.253 | 5.049 | 8.583 | 1,008.600 |
| Nature of asset holding at 31 March 2022 | | | | | | |
| Owned | 436.707 | 22.127 | 506.253 | 5.049 | 8.583 | 978.219 |
| Finance lease | 29.881 | - | - | - | - | 29.881 |
| | <u>466.588</u> | <u>22.127</u> | <u>506.253</u> | <u>5.049</u> | <u>8.583</u> | <u>1,008.600</u> |

| Movements in 2020/21 | | | | | | |
|--|---|--|--|---|--|----------------------------|
| | Other Land & Buildings £millions | Vehicles, Plant & Equipment £millions | Infrastructure Assets £millions | Surplus Assets £millions | Assets Under Construction £millions | Total £millions |
| Cost or valuation | | | | | | |
| At 1 April 2020 | 435.672 | 61.283 | 764.154 | 3.117 | 29.972 | 1,294.198 |
| Additions | 19.469 | 5.590 | 38.981 | - | 21.082 | 85.122 |
| Disposals | -34.593 | -9.831 | -0.024 | -0.250 | - | -44.698 |
| Reclassifications | 19.136 | 1.964 | -0.002 | -0.482 | -20.512 | 0.104 |
| Revaluation Increase/decrease (-): | | | | | | |
| - to Revaluation Reserve | 20.219 | - | - | 0.828 | - | 21.047 |
| - to Surplus/Deficit on the provision of service | -15.292 | - | - | 0.012 | - | -15.280 |
| At 31 March 2021 | <u>444.611</u> | <u>59.006</u> | <u>803.109</u> | <u>3.225</u> | <u>30.542</u> | <u>1,340.493</u> |
| Depreciation and impairments | | | | | | |
| At 1 April 2020 | -12.196 | -34.167 | -302.646 | -0.054 | -0.001 | -349.064 |
| Charge for 2020/21 | -7.834 | -8.264 | -10.937 | -0.122 | -0.036 | -27.193 |
| Disposals | 1.630 | 9.518 | - | 0.004 | - | 11.152 |
| Reclassifications | -0.362 | -0.286 | 0.002 | 0.077 | - | -0.569 |
| Revaluation Increase/decrease (-): | | | | | | |
| - to Revaluation Reserve | 10.129 | - | - | 0.048 | - | 10.177 |
| - to Surplus/Deficit on the provision of service | - | - | - | - | - | - |
| At 31 March 2021 | <u>-8.633</u> | <u>-33.199</u> | <u>-313.581</u> | <u>-0.047</u> | <u>-0.037</u> | <u>-355.497</u> |
| Balance sheet amount | | | | | | |
| at 1 April 2020 | <u>423.476</u> | <u>27.116</u> | <u>461.508</u> | <u>3.063</u> | <u>29.971</u> | <u>945.134</u> |
| Balance sheet amount | | | | | | |
| at 31 March 2021 | <u>435.978</u> | <u>25.807</u> | <u>489.528</u> | <u>3.178</u> | <u>30.505</u> | <u>984.996</u> |
| Nature of asset holding | | | | | | |
| at 31 March 2021 | | | | | | |
| Owned | 402.256 | 25.807 | 489.528 | 3.178 | 30.505 | 951.274 |
| Finance lease | 33.722 | - | - | - | - | 33.722 |
| | <u>435.978</u> | <u>25.807</u> | <u>489.528</u> | <u>3.178</u> | <u>30.505</u> | <u>984.996</u> |

Capital Commitments

At 31 March 2022, the Authority anticipated investing £256.230m (£335.590m at 31 March 2021) in the construction or enhancement of Property, Plant, Equipment and Infrastructure during 2022/23 and future years. Some of this will be for schemes that have not yet started.

Within the anticipated investment figure, we also have major contractual commitments for several schemes that are already in progress. These include:

- £27.193m for the Connecting Devon & Somerset Broadband Programme
- £7.656m for the Taunton Digital Innovation Centre
- £5.527m for the new Comeytrove Primary School
- £4.466m for the Public Sector Decarbonisation Programme
- £3.169m for the Traffic Signals Recovery Programme
- £2.089m for the Toneyway Corridor Improvement project
- £1.949m for the Sky College expansion project

Similar commitments listed at 31 March 2021 were £48.430m.

In addition to the individual items above we have the following contracts:

1. An on-going contract for the procurement of the highways major repairs that will result in an estimated capital expenditure of between £25 million and £30 million in 2022/23 (£25-£30 million in 2021/22). These payments will relate to new projects in 2022/23 and are in addition to the specific project information shown above.

2. A framework contract to undertake capital works to maintain and extend the life of bridges with an estimated value of between £1.5 million and £2.0 million per annum.

Further details of the Council's Capital Programme for 2023/24 to 2024/25 can be found in the Medium-Term Financial Plan papers (Appendix 9) taken to Full Council on 23 February 2022.

Revaluations

The Council carries out annual valuations that allow it to consider the entire asset portfolio for all property required to be measured at current value, whilst retaining a rolling programme that ensures all assets are valued at least every five years. All valuations were carried out internally. 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). We do not revalue our vehicles, plant, infrastructure, furniture and equipment or assets under construction; depreciated historic cost is used as a proxy for fair value. The significant assumptions applied in estimating the fair values are:

- Specialist properties (such as Schools) have been valued using the Depreciated Replacement Cost (DRC) method.
- Other non-specialist properties have been valued on the basis of Existing Use Value (EUV), in accordance with UK VPGA 6 and UK VPGA 4 of the RICS Valuation – Global Standards 2017: UK national supplement.
- Surplus assets are revalued in accordance with the IFRS13 and UK VPGA 4.1 of the RICS Valuation – Global Standards 2017: UK national supplement; and
- Assets classified as 'Held for Sale' are initially valued using the fair value measure appropriate to the class in which they are held when the Assets Held for Sale criteria were satisfied. This value is then compared to the fair value of the asset less costs to sell (based on market value net of the incremental costs directly attributable to the disposal of the asset). The assets valuation is then reduced (where applicable) to the lower of these two values.

| | Other Land & Buildings | Vehicles, Plant & Equipment | Infrastructure Assets | Surplus Assets | PPE Under Construction | Total |
|--------------------------------|------------------------|-----------------------------|-----------------------|----------------|------------------------|------------------|
| | £millions | £millions | £millions | £millions | £millions | £millions |
| Carried at historical cost | 6.391 | 22.127 | 506.253 | - | 8.583 | 543.354 |
| Valued at current value as at: | | | | | | |
| 31 March 2022 | 314.604 | - | - | 5.049 | - | 319.653 |
| 31 March 2021 | 68.968 | - | - | - | - | 68.968 |
| 31 March 2020 | 27.041 | - | - | - | - | 27.041 |
| 31 March 2019 | 42.327 | - | - | - | - | 42.327 |
| 31 March 2018 | 7.257 | - | - | - | - | 7.257 |
| Total cost or valuation | 466.588 | 22.127 | 506.253 | 5.049 | 8.583 | 1,008.600 |

During 2021/22, there were properties that became operational where a formal valuation was not possible due to pandemic related workload in the Council's Property Services team. As a result, these assets have been carried at their historic cost as at 31 March 2022 (£6.391m). These properties will be included in the 2022/23 valuation cycle to ensure they are carried at current value in accordance with the Council's accounting policy.

Note 26: Intangible Non-Current Assets

The Council classifies its software and software licences, where material, as intangible non-current assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of property, plant and equipment.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Council.

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation charge of £0.399 million for 2021/22 was charged to the following service areas:

- £0.321 million was charged to the SAP Transformation cost centre and then absorbed as an overhead across all the service headings in the cost of services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.
- The remaining amortisation of £0.077 million was charged to various services for use of specific IT systems.

The movement on intangible asset balances during the year is as follows:

| 2020/21 £millions | | 2021/22 £millions |
|----------------------|---|----------------------|
| | Balance at start of year: | |
| 7.830 | – Gross carrying amount | 7.830 |
| <u>-5.890</u> | – Accumulated amortisation | <u>-6.349</u> |
| 1.940 | Net carrying amount at start of year | 1.481 |
| | Movement in year: | |
| - | Purchases | - |
| -0.459 | Amortisation for the period | -0.399 |
| <u>1.481</u> | Net carrying amount at end of year | <u>1.082</u> |

There are two items that are individually material to the financial statements:

| | Carrying amount at 31 March 2021 £millions | Carrying amount at 31 March 2022 £millions | Remaining Amortisation Period at 31 March 2022 |
|---|---|---|---|
| HCL SAP system (Integrated finance and payroll system) | 0.617 | 0.295 | 1 years |
| SAP system licences | 0.854 | 0.783 | 11 years |

Note 27: Impairment Losses

During the valuation process for 2021/22, consideration was given to the Authorities entire asset portfolio. There were no material impairments identified during this review.

Note 28: Assets Held For Sale

The Council's assets held for sale at 31 March 2022 and the movement in the year are reflected in the table shown below:

| Current 2020/21 £millions | | Current 2021/22 £millions |
|---------------------------------|---|---------------------------------|
| 1.262 | Balance outstanding at start of year | 1.131 |
| | Assets newly classified as held for sale: | |
| 1.276 | Property, plant and equipment | 1.615 |
| 0.450 | Revaluation gain to Revaluation Reserve | 0.000 |
| -0.595 | Revaluation loss charged to Surplus/Deficit on the provision of service | -1.133 |
| | Assets declassified as held for sale: | |
| -0.812 | Property, plant and equipment | 0.000 |
| -0.450 | Assets sold | -0.681 |
| <u>1.131</u> | Balance outstanding at year end | <u>0.932</u> |

Note 29: Surplus Assets – Fair Value Measurement

Valuation Process for Surplus Properties

The fair value of the Council's surplus properties is measured annually at each reporting date. All valuations are carried out internally, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

When measuring the fair value of non-financial assets (e.g. surplus properties), highest and best use is determined only from the perspective of market participants even if the Council intends a different use. The Council has a responsibility to use its assets for the provision of public services not for its perceived highest and best use value. The Council is also sometimes bound by various regulations that restricts use of those surplus assets.

Fair Value Hierarchy

Details of the Council's surplus properties and information about the fair value hierarchy at the end of the financial year are as follows:

Fair value hierarchy of surplus assets for the year ending 31 March 2022:

| | Other significant observable inputs (level 2) £millions | Significant unobservable inputs (level 3) £millions | Fair value as at 31 March 2022 £millions |
|--------------------------------|--|--|---|
| Office/specific use properties | - | 1.114 | 1.114 |
| Commercial units | 0.060 | - | 0.060 |
| Land | <u>0.207</u> | <u>3.668</u> | <u>3.875</u> |
| | 0.267 | 4.782 | 5.049 |

None of the Council's surplus assets were valued using level 1 (quoted prices in an active market for identical assets) inputs.

Fair value hierarchy of surplus assets for the year ending 31 March 2021:

| | Other significant observable inputs (level 2) £millions | Significant unobservable inputs (level 3) £millions | Fair value as at 31 March 2021 £millions |
|--------------------------------|--|--|---|
| Office/specific use properties | - | 0.070 | 0.070 |
| Commercial units | 0.054 | - | 0.054 |
| Land | 0.712 | 2.341 | 3.053 |
| | 0.766 | 2.411 | 3.177 |

Transfers between Levels of the Surplus Asset Fair Value Hierarchy

There was one transfer between levels of the surplus asset fair value hierarchy during 2021/22.

Reconciliation of Surplus Asset Fair Value Measurements within Level 3

| 2021/22 | 01 April 2021 £millions | Transfers into level 3 £millions | Transfers out of Level 3 £millions | Transfers in/out of Surplus £millions | Purchases £millions | Sales £millions | Unrealised gains/ (losses) £millions | Realised gains/losses £millions | 31 March 2022 £millions |
|----------------|----------------------------|--|--|--|------------------------|--------------------|---|---------------------------------------|-------------------------------|
| Surplus assets | 2.411 | 0.500 | - | 0.966 | - | - | 0.905 | - | 4.782 |

Valuation Techniques used to Determine Level 2 and 3 Fair Values for Surplus Properties

Significant Observable Inputs – Level 2

The fair value for some of the residential and commercial properties has been based on an approach using current market conditions, recent market prices and other relevant information for similar assets in the local authority and immediately surrounding areas. Market conditions are such that similar properties are actively purchased, sold and rented. Where the level of observable inputs is significant the valuations have been categorised at Level 2 in the fair value hierarchy.

Significant Unobservable Inputs – Level 3

Some of the office and commercial units located in the local authority area are measured using an investment approach, by capitalising the rental income/value (using a market-derived yield). The approach has been developed using the Council's own data requiring it to factor in assumptions such as rent growth, occupancy levels, bad debt levels, tenant covenant strength, etc.

Some of the residential and commercial properties valued using a level 2 input of market rates also have a significant hope value applied. This is an amount over the existing use value but less than the value with planning consent for the proposed use. The hope value percentage has been calculated through valuer peer reviews and reflects the perceived chance of obtaining consent in a timely manner or at all. Any property making use of either of these assumptions are therefore categorised as Level 3 in the fair value hierarchy. 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).

Quantitative Information about Fair Value Measurement of Surplus Assets using Significant Unobservable Inputs – Level 3

| | As at 31/03/2022 £millions | Valuation technique used to measure fair value | Significant unobservable inputs | Range with (average used) | Sensitivity |
|-----------------------------------|----------------------------------|--|------------------------------------|--|---|
| Office/specific use properties | 1.114 | Investment income approach using market-derived yields | Yield | 6% - 12% (8%) | Fluctuations in current market conditions, and nature of tenant |
| | | | Conversion costs | Variable (discounted at 6% per annum) | Current Market value and discount rate applied. |
| Land | 3.668 | Value of developed land with significant hope values applied | Hope values | 10% - 80% (59%) | Purchasers perceived risk of planning consent (20% based on peer review for specific properties). |
| | | | Yield | 6% - 12% (8%) | Fluctuations in current market conditions. |
| | | | Conversion costs | Variable (discounted at 6% per annum) | Current Market value and discount rate applied. |
| | | | Hectare price | Variable | Variable by site according to circumstance, ie residential/brownfield/amenity, location and condition. |

Page 160

The effect of the fair value measurements using both significant observable (level 2) and unobservable inputs (level 3) on the surplus or deficit on the provision of services or other comprehensive income and expenditure for 2021/22 is as follows:

- Depreciation of £0.172m has been charged to non-distributed costs within the surplus or deficit on continuing operations.
- Reversal of previous revaluation losses (charged to surplus or deficit on continuing operations) of £0.019m. This went to the relevant service within the surplus or deficit on continuing operations.
- £1.104m as a gain to the Surplus or deficit on revaluation of fixed assets within other comprehensive income.

The surplus or deficits are directly affected by the assumptions used in the inputs and therefore influenced by any variations to the assumptions. For example, if the input valuation is too prudent, the depreciation charge and the revaluation gain will be too low.

Note 30: Leases

Council as Lessee

Finance Leases

The Council has a small number of libraries, the Museum of Somerset and Dillington House (the Council's residential centre for professional development, adult education, and the arts). We also report a small number of Voluntary Controlled (VC) and Community schools as being held under a finance lease type arrangement.

The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

| | 31 March 2021 £millions | 31 March 2022 £millions |
|--------------------------|----------------------------|----------------------------|
| Other Land and Buildings | 33.722 | 29.881 |
| | <u>33.722</u> | <u>29.881</u> |

The Council is committed to making minimum payments under these leases. This is made up of the settlement of the long-term liability and the finance costs which will be payable in future years whilst the liability remains outstanding.

Included within the minimum lease payment commitments for 2021/22 (below) are the finance lease liability and finance costs for the BSF Bridgwater PFI scheme. Although the schools have been de-recognised from the Council's accounts (due to control lying with the Bridgwater Education Trust) the lease rental payments are still payable and are therefore included within the total minimum lease payments. See note 31 for further details.

The total minimum lease payments are made up of the following amounts:

| | 2020/21 £millions | 2021/22 £millions |
|--|----------------------|----------------------|
| Finance lease liabilities (net present value of minimum lease payments): | | |
| 1.097 - Current | | 1.202 |
| 39.873 - Non Current | | 38.671 |
| 41.916 Finance costs payable in future years | | 37.550 |
| <u>82.886</u> Minimum lease payments | | <u>77.423</u> |

The minimum lease payments will be payable over the following periods:

| | Minimum Lease Payments | | Finance Lease Liabilities | |
|---|----------------------------|----------------------------|----------------------------|----------------------------|
| | 31 March 2021 £millions | 31 March 2022 £millions | 31 March 2021 £millions | 31 March 2022 £millions |
| Not later than one year | 4.990 | 4.961 | 1.097 | 1.203 |
| Later than one year and not later than five years | 19.961 | 19.844 | 5.545 | 6.076 |
| Later than five years | 57.935 | 52.618 | 34.328 | 32.594 |
| | 82.886 | 77.423 | 40.970 | 39.873 |

The minimum lease payments include rents that are reliant on events taking place after the lease was entered into, such as adjustments following rent reviews. There was no material contingent rent payable during 2021/22, and no material sub-lease arrangements were in place during the year.

Operating Leases

The future minimum lease payments due under non-cancellable leases in future years are:

| Operating Leases | 31 March 2021 | | 31 March 2022 | |
|---|-------------------------------|-----------------------------------|-------------------------------|-----------------------------------|
| | Land & Buildings £millions | Vehicles & Equipment £millions | Land & Buildings £millions | Vehicles & Equipment £millions |
| Not later than one year | 0.718 | 0.200 | 0.732 | 0.158 |
| Later than one year and not later than five years | 2.309 | 0.156 | 2.292 | 0.103 |
| Later than five years | 5.519 | 0.000 | 6.556 | 0.000 |
| | 8.546 | 0.356 | 9.580 | 0.262 |

There were no material sub-lease arrangements in place during 2021/22 for assets acquired under operating leases.

Council as Lessor

Finance Leases

The Council has leased out a number of its elderly care home properties to Somerset Care Ltd on a finance lease with a remaining term of 79 years. The Council has also leased out (for a

peppercorn rent) a section of Shire Hall to the Secretary of State on a finance lease with a remaining term of 94 years and the Rural Life Barn museum to the Somerset Preservation Trust with a remaining term of 71 years. We did not acquire any of these assets specifically for the purpose of letting under finance leases.

The Council has a gross investment in the lease, made up of the minimum lease payments expected to be received over the remaining term. The minimum lease payments are comprised of the settlement of the long-term debtor (for the interest in the properties acquired by the lessee) and financing income that will be earned in future years whilst the debtor remains outstanding. There is no guaranteed residual interest in of any of the Authorities' finance lease arrangements.

The gross investment is made up of the following amounts:

| | 31 March 2021 £millions | 31 March 2022 £millions |
|---|----------------------------|----------------------------|
| Finance lease debtor (net present value of minimum lease payments): | | |
| - Current | 0.032 | 0.033 |
| - Non Current | 14.282 | 14.249 |
| Unearned Finance Income | 47.157 | 46.399 |
| Gross investment in the lease | <u><u>61.471</u></u> | <u><u>60.681</u></u> |

The gross investment in the lease and the minimum lease payments will be received over the following periods:

| | Gross Investment in the Lease | | Minimum Lease Payments | |
|---|-------------------------------|----------------------------|----------------------------|----------------------------|
| | 31 March 2021 £millions | 31 March 2022 £millions | 31 March 2021 £millions | 31 March 2022 £millions |
| Not later than one year | 0.790 | 0.790 | 0.790 | 0.790 |
| Later than one year and not later than five years | 3.160 | 3.160 | 3.160 | 3.160 |
| Later than five years | 57.521 | 56.731 | 57.521 | 56.731 |
| | <u><u>61.471</u></u> | <u><u>60.681</u></u> | <u><u>61.471</u></u> | <u><u>60.681</u></u> |

During 2021/22, the Council reviewed the long-term lease arrangement and is confident that the lease payments will continue to be received when they fall due. We have therefore not set aside an allowance for uncollectable amounts in our accounts for 2021/22. This will be reviewed again in 2022/23, and if necessary, an allowance for uncollectable amounts will be set aside.

The minimum lease payments include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2021/22, £0.087m contingent rents were receivable by the Council (£0.087m for 2020/21).

Operating Leases

The Council leases out property under operating leases for the following purposes:

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

The future minimum lease payments receivable under non-cancellable leases in future years are:

| Operating Leases | 31 March 2021 £millions | 31 March 2022 £millions |
|---|------------------------------------|------------------------------------|
| Not later than one year | 0.747 | 1.025 |
| Later than one year and not later than five years | 2.813 | 3.874 |
| Later than five years | 1.900 | 5.703 |
| | 5.460 | 10.602 |

Note 31: Private Finance Initiatives (PFI) and Similar Contracts

Building Schools for the Future (BSF)

Building Schools for the Future (BSF) was a national Government programme to rebuild or renew every secondary school in England. The Council, through its schools and partners, has the contractual right to occupy and use the PFI sites for the purpose of delivering education and related functions during 'core school hours' each weekday and any additional time outside this period the schools may require. Furthermore, outside of these times and on occasional periods of overlap, the rights of access and use are extended for the purpose of delivering Community and Leisure related services with relevant partners. These rights of occupation and use are enforced through the availability and performance measures and penalties mentioned below, specifically in relation to the educational use.

The contractor has taken on the obligation to maintain the constructed buildings to a minimum acceptable condition and to procure and maintain the plant and equipment needed to operate them. The buildings and any plant and equipment installed in them at the end of the contract will be transferred to the Bridgwater Education Trust (BET), for nil consideration. The Council only has rights to terminate the contract if it compensates the contractor in full for any outstanding debt and other costs incurred.

Property, Plant and Equipment

The authority assets used to provide services under the PFI contract are recognised on the Council's Balance Sheet. Movements in their value over the year are detailed in the analysis of the movement on the Property, Plant and Equipment balance in Note 25.

Contractual Payments

Payments for the scheme began in 2011/12 when the first of the assets, a leisure centre, was brought into use. During 2013/14, the payments were increased to include the costs associated with the car park that became operational in the year. These payments will be increased each year by inflation and can be reduced if the contractor fails to meet availability and performance standards identified in the contract.

The remaining payments due to be made under the contract for BSF include a facilities management charge (referred to as the service element) for the schools' premises costs, and capital financing payments that relate to the total capital and financing costs. The figures shown in the table below do not include any adjustments for inflation.

Payments to be made under the BSF contract for liabilities held on the Balance Sheet

| | Repayments of Liability £m | Interest Charges £m | Service Charges £m | LifeCycle Replacement £m | Total Payments £m |
|----------------------|---|------------------------------------|-----------------------------------|---|----------------------------------|
| Within 1 year | 1.197 | 3.742 | 1.965 | 0.585 | 7.489 |
| Within 2 - 5 years | 6.050 | 13.703 | 7.859 | 2.339 | 29.951 |
| Within 6 - 10 years | 11.461 | 13.230 | 9.824 | 2.924 | 37.439 |
| Within 11 - 15 years | 18.127 | 6.564 | 9.824 | 2.924 | 37.439 |
| Within 16 - 20 years | 2.662 | -0.023 | 1.146 | 0.585 | 4.370 |
| | 39.497 | 37.217 | 30.617 | 9.357 | 116.687 |

Although the Council is committed to making these payments the leisure centre and new schools will be under the control of the BET and therefore do not appear on the Council's balance sheet. This is also referred to in Note 30 (Leases).

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The liability outstanding to pay the liability to the contractor for capital expenditure incurred is as follows:

| | 2020/21 £millions | 2021/22 £millions |
|--|------------------------------|------------------------------|
| Balance outstanding at start of year | 41.584 | 40.588 |
| Payments made during the year | -0.996 | -1.091 |
| Balance outstanding at year-end | 40.588 | 39.497 |

The total estimated indexed payments under the contract amount to £180.923 million. These payments are scheduled to be funded from the following revenue streams:

| Source of Funding | Proportion of Costs |
|-----------------------------------|----------------------------|
| Central Govt. Grant (PFI Credits) | 82.5% |
| Delegated School Budgets | 15.2% |
| SCC Contribution | 2.3% |
| | <hr/> 100% <hr/> |

Note 32: Heritage Assets - Summary of Transactions

| | 2020/21 £millions | 2021/22 £millions |
|--|----------------------|----------------------|
| <u>Collections</u> | | |
| Numismatic collections | 0.790 | 0.790 |
| Art Collections | 0.468 | 0.468 |
| Archaeology | 0.166 | 0.166 |
| Archives | 0.380 | 0.380 |
| Metalwork collections | 0.130 | 0.130 |
| Total Carrying Value - as at 31 March | 1.934 | 1.934 |

There have been no heritage assets acquired by donation or purchased during 2021/22 and no charges for impairment losses or revaluation gains/losses have been recognised. There have also been no heritage assets disposed of during this period.

Note 33: Heritage Assets – Further information on the Council’s Museum and Archive Collections

In November 2014 a new entity called The South West Heritage Trust was established taking over the responsibility of Somerset’s museum and heritage service. As part of the operating of the service the Council has transferred all land and buildings to the Trust on leases. The Trust has taken ownership of the ICT, plant and equipment. It is important that the Trust has true operational independence in order to meet the requirements of the Charity Commission, and to allow Trustees to develop the service in the most appropriate manner.

The Council will remain the owner of collections and other heritage assets (reported in Notes 32 and 33) where that is presently the case, or the depositor body in the case of collections belonging to third parties.

The Trust’s museums service collects, preserves, interprets and exhibits the material evidence of humankind and the natural environment, with particular reference to the county of Somerset, for the purposes of inspiration, education and enjoyment. It manages the Museum of Somerset at Taunton Castle, Somerset Rural Life Museum, Glastonbury, and Somerset Brick and Tile Museum, Bridgwater.

The origins of the museum’s collections lie with the formation of Somerset Archaeological and Natural History Society in 1849. Among the aims of the Society was the creation of a museum and from the beginning it began collecting objects. In 1958 the Society leased the Castle and loaned the collections to Somerset County Council for 49 years, an arrangement that by mutual agreement was extended for a further 49 years in 2008.

It is estimated that in total the museum collections comprise 2.5 to 3 million objects. The pre-1958 collection is largely owned by Somerset Archaeological and Natural History Society and

includes some objects originally loaned to the Society by third parties. Post-1958 acquisitions very largely belong to Somerset County Council but also include some loans made by individuals, organisations and other museums. Among the loans are extensive collections belonging to Somerset Military Museum Trust and the Glastonbury Antiquarian Society. Acquisitions continue to be made to the collection in the categories listed below. They come as donations, by purchase and, occasionally, on loan. The whole of the collection is publicly accessible as follows:

- A proportion of the collection can usually be seen by visitors to the Trust's three museums, namely the Museum of Somerset, Taunton, Somerset Rural Life Museum, Glastonbury, and Somerset Brick and Tile Museum, Bridgwater. The Museum of Somerset is normally open from 10.00–17.00 Tuesday to Saturday and the Brick and Tile Museum from 10.00–16.00 on Tuesday and Thursday.
- Elements of the collection not on display are stored at the Somerset Heritage Centre where material is available for viewing by prior appointment from 9.00 until 17.00 Monday to Friday. In addition, there are regular pre-booked public tours of the Heritage Centre which include the museum stores.

All South West Heritage Trust sites are now open following the easing of COVID restrictions.

Heritage Assets of Particular Importance

Geology

The geological collection contains about thirty thousand rocks, minerals and fossils collected mainly from the historic county of Somerset and from neighbouring areas in North and East Devon, West Dorset and West Wiltshire. It contains scientifically important specimens of national and international significance. The highlights are the Pleistocene mammals, Liassic marine vertebrates, Lower Greensand siliceous marine invertebrates, Liassic insects and the iron and copper minerals from West Somerset. Lower and Middle Jurassic fossil invertebrates form an important subsidiary collection. Many specimens derive from small, hand-operated quarries, such as those at Street and Ilminster that have long ceased to operate, or from the bone caves of the Mendip Hills. The collection documents the historical development of the science of geology in Somerset and most of the individual collections date from the mid-19th century to the early 20th century.

The collection of Ice Age mammals is the most scientifically important geological collection in the museum consisting of 18,000 specimens collected from the famous bone caves of the western Mendip Hills and the fluvio-marine deposits (Burtle Beds) of Greylake in the Somerset Levels. The collection consists of bones, tusks, antlers and teeth of fossil mammals and birds. It represents the most significant Late Pleistocene assemblage in southern England.

The Council has not reported the Geology collection in the Balance Sheet, as valuations are not available at a cost commensurate to users of the financial statements.

Biology

The collection consists of an irreplaceable source of local reference and voucher specimens. Apart from a few oddities and exotic additions the material largely derives from the area of pre-1974 Somerset. The collection comprises:

- Study skins and mounted specimens – these include a small collection of British mammals and a good range of British bird species from the county together with some great rarities such as the Great Bustard and the White-tailed Sea Eagle.
- Birds' Eggs – these include an egg and nest collection from historic Somerset made by W. Wigglesworth, an important ornithologist of the early twentieth century.
- Conchological collections – the collection has two components:
 - a large mid-19th century collection of foreign marine and terrestrial shells which includes interesting rarities and items of historical interest, e.g. a small collection of Japanese land snails given in 1951;
 - a good late-19th century collection of British land, freshwater and marine shells containing identified specimens of small and deep-water species, types usually missing from collections.
- Entomological collection – the large and diverse insect collection comprises lepidoptera, hymenoptera, diptera, coleoptera and orthoptera. Dominated by butterflies, moths and beetles, it provides the material evidence to support a historical understanding of their state and status within the county.
- The herbarium – the collection contains vascular plants, mosses, liverworts, lichens and seaweeds. Together with the insects the herbarium is the most scientifically important collection and is the best documented. There are in excess of 30,000 specimens.

The Council has not reported the biology collection in the Balance Sheet, as valuations are not available at a cost commensurate to users of the financial statements.

Archaeology

Material ranges from the Palaeolithic to the 19th century and comprises both chance finds and excavation archives almost exclusively from historic Somerset and overwhelmingly from the area of the post-1974 county. There are some 75,000 small finds (artefacts of metal, bone, glass, stone, etc.) along with a large quantity of bulk finds of pottery, stone and animal bone.

Particular strengths of the collection lie in the following archaeological archives, some of which are of national importance:

- Brean Down Bronze Age settlement
- Glastonbury and Meare Lake Villages – Iron Age sites of international importance excavated between 1892 and 1956
- Ham Hill and Cadbury Castle – excavation archives and chance finds acquired over the past 150 years from two of Britain's most important hillforts.
- A nationally important collection of Bronze Age metalwork derived from chance finds and excavations.

The only item the Council reports in the balance sheet is a Roman Bronze Statue of Capricorn. The other items of the archaeology collection have not been reported in the Balance Sheet, as valuations are not available at a cost commensurate to users of the financial statements.

Ceramics

The collection of Somerset-made ceramics includes earthenware from Donyatt, Wrangway, Nether Stowey and other centres, Brislington and Wincanton tin-glazed earthenware, Nailsea glass, Elton ware and examples of work of 20th- and 21st-century craft potters.

There is an extensive collection of non-British pottery from China, the Near East, Africa, America and North West and Mediterranean Europe. The Barton collection of vernacular ceramics is of particular significance in this context.

The Council has not reported the ceramics collection in the Balance Sheet, as valuations are not available at a cost commensurate to users of the financial statements.

Metalwork

The Museums Service holds a collection of 185 bronze skillets, cauldrons, posnets and mortars, of which 179 pieces comprise the Butler Collection which was acquired in 2004. This is the largest collection of English bronze cooking vessels in public ownership in this country and constitutes the national reference collection. The collection derives from foundries across southern England together with a small number of pieces from Wales. Over 40% of the vessels are Somerset-made, largely from foundries at South Petherton and Montacute which operated in the 17th and early 18th centuries.

The Council's silver collection is of regional importance with a strong focus upon 17th century Somerset makers, including Thomas Dare senior and junior, Ellen Dare, Robert Wade and Samuel Dell, all of Taunton, the Sweet family of Crewkerne and Chard, Christopher Roberts of Bridgwater and John Elderton of Frome. The 50 pieces are predominantly spoons with a small number of cups and beakers. There are two hoards of spoons, from East Combe and Charlynch.

The Council has only reported in its Balance Sheet the metalwork artefacts where cost information (usually purchase price) is known. For the remainder of the metalwork collection, valuations are not available at a cost commensurate to users of the financial statements.

Fine and decorative arts

The Service's collection contains a relatively small representation of art objects, of which paintings and drawings form the greater part. These mainly comprise illustrations of Somerset scenes and portraits of people associated with Somerset, together with works by artists connected with the County by birth or residence. The collection also includes art objects such as sculpture and art pottery whose connection with Somerset is through previous ownership (for example as part of a country house collection), or which are otherwise linked to the county and are illustrative of its history and creativity. The works by Schwarz and Piper listed in the Balance Sheet relate to this section of the policy.

Numismatics

The 95,000 coins, medals and banknotes date from ancient Greek to the 20th century and many parts of the world are represented. The collection has developed through donations of single coins and collections (e.g. Norris in 1890, Tite early 20th century and Walter 1901), finds from archaeological excavations and by purchase. The focus has always been upon acquiring specimens made in, or for specific use in, the county and with a Somerset provenance e.g. material from excavations and hoards. Of particular significance are silver pennies from the county's Anglo-Saxon and Norman mints, 17th–19th century trade tokens, trade checks and medallions issued for use in the county and coin hoards, notably the Shapwick hoard which is

the largest hoard of Roman silver denarii to have been found in Britain and the Frome hoard, the largest hoard of coins ever found in a single container in Britain.

The Council has only reported in its Balance Sheet the numismatic artefacts where cost information (usually purchase price) is known. For the remainder of the numismatic collection, valuations are not available at a cost commensurate to users of the financial statements.

Archives

Included within the Council's archives is a collection comprising c. 240 boxes of papers relating to the Sanford family of Nynehead near Wellington and their estate. It includes internationally significant papers of the Somerset-born philosopher John Locke; papers concerning important national events including the Monmouth Rebellion; papers concerning British national politics; a detailed first-hand account of the Boer War; extensive and remarkable correspondence of a seventeenth century Somerset country gentlewoman; and a large estate archive important for the understanding of the development of West Somerset. Together with its own historic administrative archives, the Council owns many other significant collections, including those of the Luttrell, Dickinson, Wyndham and Walker-Heneage families.

Preservation and Management

Details of the Council's preservation and management policy can be found in the Heritage Services' *Museum Acquisition and Disposal Policy* which has been produced in accordance with national guidelines and is available on the SW Heritage website.

Note 34: Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is included in the table below (including the value of assets acquired under finance leases and PFI/PPP contracts), 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.

| 2020/21 £millions | | 2021/22 £millions |
|-----------------------|---|-----------------------|
| 423.076 | Opening Capital Financing Requirement | 458.016 |
| | <u>Capital Investment:</u> | |
| 85.121 | - Property, Plant and Equipment (inc Infrastructure) | 64.944 |
| 37.780 | - Revenue Expenditure Funded from Capital Under Statute | 44.583 |
| -0.033 | Reduction of capital debtors | -0.032 |
| -0.046 | Loan Premium (under the Capital Financing Regs (SI 2003 no.3146 as amended) | -0.045 |
| | <u>Sources of Finance</u> | |
| -1.172 | - Capital receipts | -0.885 |
| -78.604 | - Government grants and contributions | -84.308 |
| | <u>- Sums set aside from revenue:</u> | |
| -1.308 | - Direct revenue contributions | -2.639 |
| -3.182 | - Minimum Revenue Payments | -4.392 |
| -3.616 | - Other (including lease principal payments) | -3.449 |
| <u>458.016</u> | Closing Capital Financing Requirement | <u>471.793</u> |

| 2020/21 £millions | | 2021/22 £millions |
|----------------------|---|----------------------|
| | <u>Explanation of movements in year</u> | |
| -3.643 | Increase/Decrease (-) in underlying need to borrow (supported by government financial assistance) | -4.393 |
| 38.583 | Increase/Decrease (-) in underlying need to borrow (unsupported by government financial assistance) | 18.170 |
| <u>34.940</u> | Increase/Decrease (-) in Capital Financing Requirement | <u>13.777</u> |

Note 35: Financial Instruments

Categories of Financial Instrument

The following categories of financial instrument are carried in the Balance Sheet:

| 31 March 2021 | | | 31 March 2022 | |
|---|-----------------|---|------------------|-----------------|
| Non Current | Current | | Non Current | Current |
| £millions | £millions | | £millions | £millions |
| <u>Investments</u> | | | | |
| - | 155.237 | Financial assets at amortised cost | - | 210.199 |
| 38.843 | - | Pooled Funds at fair value through profit or loss | 44.499 | - |
| 38.843 | 155.237 | Total Investments | 44.499 | 210.199 |
| <u>Receivables</u> | | | | |
| 18.557 | 35.465 | Financial assets at amortised cost | 17.649 | 38.009 |
| 1.787 | 24.500 | Receivables that are not financial instruments | 1.630 | 26.860 |
| 20.344 | 59.965 | Total Receivables | 19.279 | 64.869 |
| <u>Cash and cash equivalents</u> | | | | |
| - | 58.113 | Cash and cash equivalents at amortised cost | - | 61.401 |
| - | 25.630 | Cash equivalents at fair value through profit or loss | - | 24.000 |
| - | -6.605 | Overdraft | - | -5.115 |
| - | 77.138 | Total Cash and cash equivalents | - | 80.286 |
| <u>Other Assets</u> | | | | |
| 988.411 | 8.798 | Other Assets that are not financial instruments | 1,010.302 | 8.375 |
| 988.411 | 8.798 | Total Other Assets | 1,010.302 | 8.375 |
| <u>Borrowings</u> | | | | |
| -338.441 | -13.082 | Financial liabilities at amortised cost | -338.001 | -16.033 |
| -338.441 | -13.082 | Total Borrowings | -338.001 | -16.033 |
| <u>Payables</u> | | | | |
| -0.259 | -67.939 | Financial liabilities at amortised cost | -0.260 | -97.380 |
| - | -38.710 | Payables that are not financial instruments | - | -33.623 |
| -0.259 | -106.649 | Total Payables | -0.260 | -131.003 |
| <u>Other Liabilities</u> | | | | |
| -39.873 | -1.097 | PFI and finance leases carried at amortised cost | -38.671 | -1.202 |
| -1,033.921 | -113.954 | Other Liabilities that are not financial instruments | -898.632 | -104.730 |
| -1,073.794 | -115.051 | Total Other Liabilities | -937.303 | -105.932 |

Categories of Financial Assets and Financial Liabilities

The following categories of financial assets and liabilities are carried in the Balance Sheet

| 31 March 2021 | | | 31 March 2022 | |
|-------------------------------------|----------------|---|-----------------|-----------------|
| Non Current | Current | | Non Current | Current |
| £millions | £millions | | £millions | £millions |
| <u>Financial Assets:</u> | | | | |
| 18.557 | 242.210 | Measured at amortised cost | 17.649 | 304.494 |
| 38.843 | 25.630 | Measured at fair value through profit or loss | 44.499 | 24.000 |
| 57.400 | 267.840 | | 62.148 | 328.494 |
| <u>Financial Liabilities</u> | | | | |
| -378.573 | -82.118 | Measured at amortised cost | -376.932 | -114.615 |
| -378.573 | -82.118 | | -376.932 | -114.615 |

The Council does not hold any financial liabilities measured at fair value though profit or loss.

Items of Income, Expense, Gains and Losses

The following amounts have been reported in the Comprehensive Income and Expenditure Statement in relation to Financial Instruments:

| 31 March 2021 | | | 31 March 2022 | | |
|---|---|--|---|---|--|
| Financial Liabilities - measured at amortised cost £millions | Financial Assets - measured at fair value through profit or loss £millions | Financial Assets - measured at amortised cost £millions | Financial Liabilities - measured at amortised cost £millions | Financial Assets - measured at fair value through profit or loss £millions | Financial Assets - measured at amortised cost £millions |
| 19.665 | - | - | 19.731 | - | - |
| - | 0.267 | - | - | - | - |
| 19.665 | 0.267 | - | 19.731 | - | - |
| - | - | -2.450 | - | - | -2.610 |
| - | - | - | - | -0.669 | - |
| - | - | -2.450 | - | -0.669 | -2.610 |
| 19.665 | 0.267 | -2.450 | 19.731 | -0.669 | -2.610 |
| Net (Gain)/Loss for the Year | | | | | |

Fair Values of Assets and Liabilities

Financial liabilities and financial assets are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- Prevailing swap rates for Lender Option Borrower Options (LOBOs) and market rate i.e. the rate that the Council would get should they take a loan of the same value for Public Work Loans Board (PWLB) at 31 March 2022;
- The fair value of the Council's PFI / lease deferred liability has been calculated using zero coupon rates derived from the Bloomberg GBP European composite AA corporate bond yield as indicative interest rates;
- No early repayment or impairment is recognised;
- Where an instrument will mature in the next 12 months, the carrying amount is assumed to approximate to fair value; and
- The fair value of trade and other receivables is taken to be the invoiced or billed amount (an observable Level 2 input).
- Financial assets classified as Pooled Funds are carried in the Balance Sheet at fair value, based on the market price (an observable Level 2 input).

The fair values calculated are as follows:

| 31 March 2021 | | | 31 March 2022 | | |
|------------------------------|-------------------------|---|------------------|------------------------------|-------------------------|
| Carrying Amount £millions | Fair value £millions | | Fair Value Level | Carrying Amount £millions | Fair Value £millions |
| | | <u>Finance asset measured at amortised cost</u> | | | |
| 51.508 | 51.508 | - Cash and Cash Equivalents | | 56.286 | 56.286 |
| 39.709 | 39.709 | - Receivables (non-Lease) | | 41.376 | 41.376 |
| 14.313 | 29.613 | - Receivables (Lease) | 3 | 14.282 | 20.246 |
| 155.237 | 155.237 | - Investments (exc Pooled Fund) | | 210.199 | 210.199 |
| | | <u>Finance asset measured at fair value through profit and loss</u> | | | |
| 38.843 | 38.843 | - Pooled Fund Investment | 2 | 44.499 | 44.499 |
| 25.630 | 25.630 | - Cash Equivalents | 1 | 24.000 | 24.000 |
| 325.240 | 340.540 | Total Financial Assets | | 390.642 | 396.606 |
| 1,023.496 | 1,023.496 | Other assets that are not financial instruments | | 1,047.167 | 1,047.167 |
| 1,348.736 | 1,364.036 | Total Assets | | 1,437.809 | 1,443.773 |
| | | <u>Financial liabilities at amortised cost</u> | | | |
| -68.198 | -68.198 | Payables | | -97.640 | -97.640 |
| -7.220 | -7.220 | Short Term Borrowing | | -10.050 | -10.050 |
| -160.273 | -225.080 | PWLB | 2 | -160.292 | -207.207 |
| -184.030 | -295.027 | Other long term loan | 2 | -183.692 | -261.055 |
| -40.970 | -72.523 | PF/Finance Lease liability | 3 | -39.873 | -63.305 |
| -460.691 | -668.048 | Total Financial Liabilities | | -491.547 | -639.257 |
| -1,186.585 | -1,186.585 | Other liabilities that are not financial instruments | | -1,036.985 | -1,036.985 |
| -1,647.276 | -1,854.633 | Total Liabilities | | -1,528.532 | -1,676.242 |
| -298.540 | -490.597 | Net Assets | | -90.723 | -232.469 |

The Fair Value of our PWLB and LOBO's (within the 'other long-term loans' figure above) has been calculated using Level 2 valuation techniques. Level 2 techniques are based on observable inputs, in this instance reviewing market conditions for loans and observed interest rates to ascertain a fair value - further detail is provided within the above bullet points and in accounting policy 10.

The fair value of the liabilities is higher than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2022) arising from a commitment to pay interest to lenders above current market rates.

As the Council's long-term investments in Pooled Investment Funds have been adjusted in the accounts to reflect their market value, the fair value of the asset is the same as the carrying value. Short term receivables and payables are carried at cost as this is a fair approximation of their value.

Short-term and long-term investments

These investments include money invested in an account known as the "Comfund", together with money from partner organisations. The aim is to gain the best income from the money jointly invested. The Council also shows the money we receive to invest for other organisations as temporary loans.

The total value of the Council's long-term and short-term investments is shown in the table below:

| 2020/21 £millions | | 2021/22 £millions |
|-----------------------|--|-----------------------|
| | <u>Fixed Interest Rate Deposits:</u> | |
| 15.000 | Santander UK 95-Day Notice A/c | 20.000 |
| - | - DBS Bank | 20.000 |
| - | - Sedgemoor District Council | 15.000 |
| - | - London Borough of Croydon | 15.000 |
| - | - Lloyds Bank | 15.000 |
| - | - Nordea Bank AB | 15.000 |
| - | - Woking Borough Council | 10.000 |
| - | - Lancashire County Council | 10.000 |
| - | - Thurrock Borough Council | 10.000 |
| - | - Bank of Montreal | 10.000 |
| - | - Duetsche Zentral Genossenschafts Bank | 10.000 |
| - | - Toronto-Dominion Bank | 10.000 |
| - | - London Borough of Enfield | 10.000 |
| - | - Oxford City Council | 10.000 |
| 10.000 | HSBC Evergreen Notice Account | - |
| 10.000 | Police & Crime Commissioner for Lancashire | - |
| 119.930 | Other Fixed Interest Rate Deposits | 30.000 |
| <u>154.930</u> | | <u>210.000</u> |
| 0.307 | Interest due on temporary investments | 0.199 |
| <u>155.237</u> | Total short-term investments | <u>210.199</u> |
| 14.010 | CCLA Pooled Property Fund | 16.431 |
| 14.941 | RLAM Investment Grade Credit Fund | 14.253 |
| 9.892 | M&G Strategic Corporate Bond Fund | 13.815 |
| <u>38.843</u> | Total long-term investments | <u>44.499</u> |

Long-term Receivables

| 2020/21 £millions | | 2021/22 £millions |
|----------------------|---|----------------------|
| | <u>Loans to:</u> | |
| 0.090 | Central Government (Academy loans) | 0.060 |
| 0.047 | Other authorities (mostly for housing) | 0.032 |
| 4.138 | Other organisations/individuals | 3.308 |
| 14.282 | Leasing arrangements with Somerset Care Ltd | 14.249 |
| | <u>Payment in advance:</u> | |
| 1.787 | BSF Lifecycle costs | 1.630 |
| <u>20.344</u> | | <u>19.279</u> |

Short-term borrowing

| 2020/21 £millions | | 2021/22 £millions |
|----------------------|--|----------------------|
| -7.220 | Other organisations investing in the Comfund | -10.050 |
| <u>-7.220</u> | | <u>-10.050</u> |

Long-term borrowing

| 2020/21 £millions | | 2021/22 £millions |
|----------------------|-------------------------------------|----------------------|
| | Loans due to be repaid: | |
| -1.959 | within one year | -2.131 |
| -2.016 | between one and two years | -6.893 |
| -25.086 | between two and five years | -31.155 |
| -25.839 | between five and 10 years | -19.817 |
| -285.500 | after more than 10 years | -280.136 |
| -3.903 | Interest due on long-term borrowing | -3.853 |
| <u>-344.303</u> | | <u>-343.984</u> |

Long-term borrowing (including interest) that has become repayable within a year is shown in current liabilities on the Balance Sheet.

Note 36: Nature and Extent of Risks Arising from Financial Instruments

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

- Credit and Counterparty Risk (security of investments);
- Liquidity Risk / Refinancing Risk (inadequate cash resources / impact of debt maturing in future years);
- Market or Interest Rate Risk (fluctuations in interest rate levels);
- Inflation Risk (exposure to inflation);
- Legal and Regulatory Risk.

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by the treasury management team, under policies approved by the Council. The annual Treasury Management Strategy Statement outlines the proposed Treasury Management strategy, policies, and activities for the coming year. It includes

an Annual Investment Strategy that is required by the Local Authority Act 2003, as prescribed by guidance from the Department for Levelling Up, Housing and Communities (DLUCH). The Treasury Management Practices (TMPs) is a comprehensive document that sets out the nature of risks inherent to treasury management, and schedules provide details of how those risks are actively managed. They form a living document that is subject to ongoing review and updating.

Credit and Counterparty Risk

Credit and counter-party risk is the risk of failure (default) by a third party to meet its contractual obligations under an investment, loan or other commitment, especially one due to deterioration in its creditworthiness, which causes the Council an unexpected burden on its capital or revenue resources.

Credit and Counterparty Risk - Investments

This risk is minimised through the Annual Investment Strategy, and more specifically by the Somerset County Council Lending Counterparty Criteria, which dictates the criteria with which potential counterparties' creditworthiness will be judged. The criteria require the Council to take account of counterparty ratings by the 3 major ratings agency, Fitch, S&P and Moody's, with the lowest rating of the three being used. The criteria also impose limits to be invested with a given financial institution based on ratings, group structure, duration, and country of domicile.

The Somerset County Council Lending Counterparty Criteria is proposed and approved annually to incorporate any changes in financial institutions or developments in the wider political, economic, or legal environment. The criteria in force during 2021/22, can be found under the reports for the County Council meeting 17 February 2021, agenda item 6, Paper B. The Treasury Management Strategy Statement is also available on the Council's website.

As had previously been the case with the Council and is now a requirement of the revised DLUCH guidance, the Council uses a range of indicators to assess counterparties' creditworthiness, not just credit ratings. Among other indicators to be taken into account are:

- Credit Default Swaps and Government Bond Spreads;
- GDP, and Net Debt as a percentage of GDP for sovereign countries;
- Likelihood and strength of parental support;
- Banking resolution mechanisms for the restructure of failing financial institutions i.e. bail-in.
- Share Price;
- Market information on corporate developments and market sentiment towards the counterparties and sovereigns.

Constant Net Asset Value (CNAV) and/or Low-Volatility Net Asset Value (LVNAV) Money Market Funds (MMFs) are used, and have their own criteria, namely;

- ratings,
- limits of the Council's funds as a nominal or percentage of the overall fund, and
- an overall limit on MMFs.

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies is assessed generally. The risk of any institution failing to make interest payments or repay the principal sum will obviously be specific to each individual institution and will be subjectively assessed by various external credit experts. It is therefore deemed

appropriate to take the opinion of the same credit rating agencies for likelihood of default, as when making investments.

The Council continuously monitors the creditworthiness of counterparties, in line with the credit risk management practices set out on Appendix B of the Treasury Management report.

All three credit rating agencies' websites (DLUCH guidance states that a credit rating agency is one of Standard & Poor's, Moody's Investor Services Ltd, and Fitch Ratings Ltd) are visited frequently, and all ratings of proposed counterparties will be subject to verification on the day of investment. All ratings of currently used counterparties are reported to the regular treasury management meeting, where proposals for any new counterparties will be discussed. New counterparties must be approved by the Section 151 Officer (Director of Finance & Governance) before they are used. Any changes to ratings that put the counterparty below the minimum acceptable credit quality whilst we have a deposit, or a marketable instrument will be brought to the attention of the Section 151 Officer immediately, and an appropriate response decided on a case-by-case basis. Sovereign credit ratings are monitored and acted on as for financial institution ratings. Investment limits are set by reference to the lowest published long-term credit rating from the three rating agencies mentioned above. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used.

The following analysis summarises the Council's potential maximum exposure to credit risk on investments (excluding CCLA investment), based on reports of transition and default studies by the three major ratings agencies. In line with guidance on making investments, it is deemed appropriate to take the lowest rating of the three. The values are calculated by multiplying the likelihood of default by the value of deposits at risk. The table below shows the values calculated using each of the ratings agency's reports. The worst-case scenario has been used.

| Risk rating provider | Risk rating | Amount outstanding £millions | Potential at risk £millions |
|-----------------------------|--|---|--|
| Fitch | Money-market funds | | |
| | AAA | 24.000 | 0.026 |
| | Local Authorities | | |
| | AA- | 105.000 | 0.084 |
| | UK banks | | |
| | AA- | 20.000 | 0.016 |
| | A+ | 55.000 | - |
| | Overseas Banks | | |
| | AA- | 65.000 | 0.052 |
| | A+ | 25.000 | - |
| | | 294.000 | 0.178 |
| S&P | Money-market funds | | |
| | AAA | 24.000 | - |
| | Local Authorities | | |
| | AA | 105.000 | 0.021 |
| | UK banks | | |
| | A+ | 55.000 | 0.028 |
| | A | 20.000 | 0.010 |
| | Overseas Banks | | |
| | AA- | 65.000 | 0.020 |
| | A+ | 20.000 | 0.010 |
| A | 5.000 | 0.002 | |
| | | 294.000 | 0.091 |
| Moody's | Money-market funds | | |
| | AAA | 24.000 | - |
| | Local Authorities | | |
| | Aa3 | 105.000 | 0.042 |
| | UK banks | | |
| | A1 | 75.000 | 0.045 |
| | Overseas Banks | | |
| | Aa1 | 30.000 | - |
| Aa2 | 20.000 | - | |
| Aa3 | 40.000 | 0.016 | |
| | | 294.000 | 0.103 |
| | Investment and highest risk for 2021/22 | 294.000 | 0.178 |
| | Investment and highest risk for 2020/21 | 235.630 | 0.159 |

As the maximum exposure to credit risk is immaterial, the investments in the Balance Sheet have not been reduced by the potential loss allowance.

Credit and Counterparty Risk – Trade and Lease Receivables

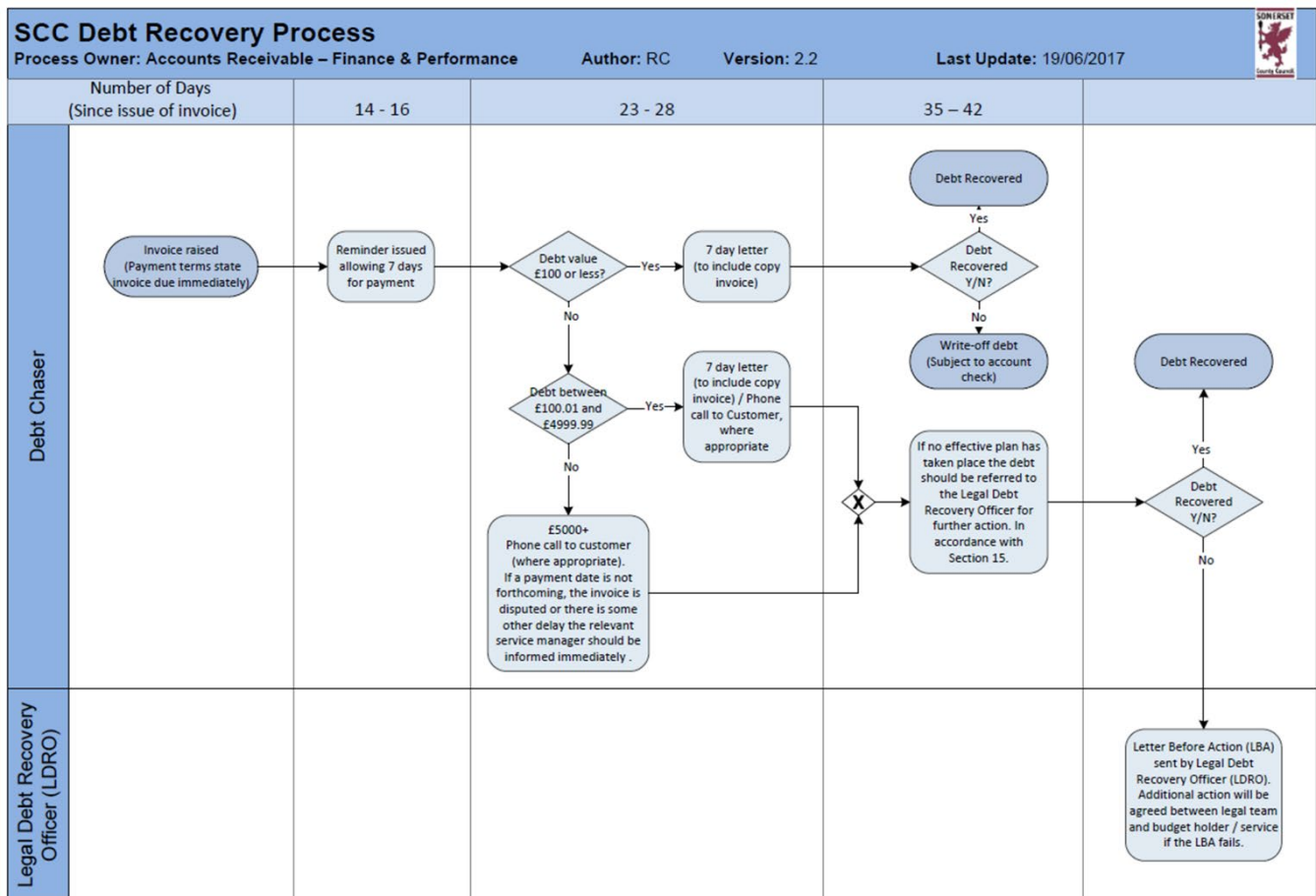
The standard position of the Council is that wherever possible payment must be obtained either prior to, or at the time of provision of goods or services and without recourse to raising invoices. If credit is to be extended, service teams ensure in advance that the customer is made aware of the Councils payment terms (payment due immediately on receipt of invoice to minimise any loss). Goods or services will only be supplied when the Council is satisfied of the customers ability to pay (the credit worthiness of new customers is assessed using a credit check service provider).

Other safeguards in place, before the Council extends credit to an organisation or individual include:

- Ensuring that the customer does not already have significant outstanding debts to the Council, or has had debts written off previously;
- If supplying goods or services over an extended period of time, stage or interim payments are agreed with the customer, preferably through the setting up of a direct debit (ensuring that written confirmation of the method of invoicing is received prior to provision of any goods or services).

In the event that a debt becomes overdue, the Council has a formal debt management timetable to minimise the time between the debt being raised and its collection.

The flowchart below shows the authorities debt recovery in a schematic form:



In certain circumstances it may be appropriate for a customer to pay by instalments. Payment by instalments is only acceptable when the customer is genuinely unable to settle the debt in full immediately, (or where this is set out in national guidelines or local political decisions), or in the case of agreed schemes such as County Ticket for students.

The need for payment by instalments is much more likely to occur when the customer is an individual or sole trader, rather than a business. Where this is the case, the authorities Pre-Action Protocol encourages the Council to try and reach agreement for the debt to be paid by instalments, based on the debtor’s income and expenditure. Under the protocol, if the Council agrees to the debtor’s proposal for repayment of the debt, the Council must give the debtor reasons in writing (as this forms part of the evidence should Court proceedings be required).

If the recovery procedures have not resulted in a payment being received, the debt is referred to the authorities Legal Debt Recovery Officer who determines how (or if) to recover the debt. The

Legal Debt Recovery Officer will review the paperwork to ascertain whether the debt is a) enforceable and b) if the paperwork provided is sufficient or if more information is required.

Where recovery is likely, any outstanding debt is reviewed at year-end and a loss allowance recognised (see details of the Council's impairment methodology in the Financial Asset section of the Financial Instrument accounting policy no. 9). Should the Legal Debt Recovery Officer consider a debt to be irrecoverable the debt is written off to the service area that raised the debt.

As at 31 March 2022, the gross past due sundry debtor amount (excluding debts to accrue) can be analysed as follows:

| | 2021/22 £millions |
|--------------------|------------------------------------|
| Less than 3 months | 6.157 |
| 3 to 6 months | 0.488 |
| 6 months to 1 year | 0.366 |
| More than 1 year | 0.700 |
| | <hr/> 7.712 <hr/> |

Amounts Arising from Expected Credit Losses

During the year, the Council wrote off financial assets with a contractual amount outstanding of £0.227m (£0.434m in 2020/21), with a further £0.526m still subject to enforcement activity.

There were no material changes in the loss allowance for any class of financial asset during the year.

Liquidity / Refinancing Risk

The Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. The Council's cash flow investments are made with reference to the outlook for the UK Bank Rate and Money Market rates. Short-term deposits are made with suitable counterparties, and it has become more frequent under current market conditions that Call Accounts and CNAV/LVNAV MMFs have been used. MMFs offer an alternative high security, high liquidity investment into an extremely diversified portfolio. Many Call and MMF accounts offer more competitive rates than short-term time deposits up to 3-months, as well as instant access.

If unexpected cash movements happen, the Council has ready access to borrowings from the Money Markets and the Public Works Loans Board. Therefore, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The Council sets limits on the proportion of its fixed rate borrowing due to mature during specified periods. The strategy is to ensure where possible, that the maturity profile of loans

does not mean that the Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates (Refinancing risk). The Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented. Also ensuring the maturity profile of the monies so raised are managed with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

The Council will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective and will avoid over reliance on any one source of funding if this might jeopardise achievement of the above. This can be managed through a combination of careful planning of new loans taken out and (where it is economic to do so) restructuring debt or making early repayments. The market loan portfolio can limit the control of early repayments, and a strategy is in place to minimise the impact should counterparties exercise their right to increase the interest rate charged. The LOBO maturity profile assumes that the lender will not exercise their option until maturity.

The LOBOs are of fixed rates ranging between 3.99% and 5.05%. Of the total amount, £25m have a break clause of every 5 years, £15m has a break clause every 1 year, whilst £65m have a break clause at every interest payment date twice a year. One loan of £5m has an option at any time with 1 months' notice. However, in the current low interest rate environment, it is unlikely that the lender will exercise their option to request early repayment of these LOBOs.

The maturity analysis of financial liabilities can be found in Note 35 – Long-term Borrowing.

Market Risk – Interest Rate Risk

The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates can have a complex impact on the Council. A rise in 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 liabilities will fall;
- 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 investment will fall.

Investments classed at 'loans and receivables' and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on the Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be recognised through the Surplus and Deficit on the Provision of Services.

The Treasury Management Strategy aims to mitigate these risks by setting upper limits on the authorities' exposure to fixed and variable interest rates.

If interest rates had been 0.1% lower during 2021/22 with all other variables held constant, there would have been a reduction in interest receivable on investments of approximately £0.194m.

Market Risk – Price Risk

The Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests and will accordingly seek to protect itself from the effects of such fluctuations. The Council is exposed to the risk of falling commercial property prices on its CCLA pooled property fund. This risk is limited by the Authorities maximum exposure to pooled property funds of £15m. A 5% fall in commercial property prices would result in a £0.750m charge to the Other Comprehensive Income & Expenditure section of the Comprehensive Income & Expenditure Statement – under current accounting regulations this would only impact on the General Fund when the investment was sold, as a statutory override exists (until 31st March 2023) that allows the Council to carry any fair value movements in an unusable reserve until the asset is sold.

The Council is also exposed to the risk of a fall in listed bond prices on its RLAM and M&G Pooled Investment Funds. A 5% fall in the listed price of Sterling Corporate Bonds would result in a £1.500m charge to the Other Comprehensive Income & Expenditure section of the Comprehensive Income & Expenditure Statement - under current accounting regulations this would only impact on the General Fund when the investment was sold, as a statutory override exists (until 31st March 2023) that allows the Council to carry any fair value movements in an unusable reserve until the asset is sold.

Legal and Regulatory Risk

The Council ensures that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy, it will ensure that there is evidence of counterparties powers, Council and compliance in respect of the transactions they may effect with the organisation. Particular notice is given with regards to duty of care and fees charged.

The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

Foreign Exchange Risk

The Council has few financial assets and liabilities denominated in foreign currencies other than a few invoices in major currencies, namely Euros and US Dollars. Therefore, there is little exposure to loss arising from exchange rates. To mitigate the minimal risk in movements in the Euro exchange rate, the Council maintains an interest-bearing Euro account.

Note 37: Inventories

| | Consumable Stores | | Musical Instruments | | Book Stocks | | Total | Total |
|---|-------------------|--------------|---------------------|--------------|--------------|--------------|--------------|--------------|
| | 2020/21 | 2021/2022 | 2020/21 | 2021/2022 | 2020/21 | 2021/2022 | 2020/21 | 2021/2022 |
| | £millions | £millions | £millions | £millions | £millions | £millions | £millions | £millions |
| Balance outstanding at start of year | 0.250 | 0.726 | 0.855 | 0.885 | 6.405 | 6.056 | 7.510 | 7.667 |
| Purchases | 0.908 | 0.730 | 0.049 | 0.003 | 0.591 | 0.576 | 1.548 | 1.309 |
| Recognised as an expense in the year | -0.432 | -0.740 | -0.019 | -0.071 | -0.940 | -0.722 | -1.391 | -1.533 |
| Balance outstanding at year-end | 0.726 | 0.716 | 0.885 | 0.817 | 6.056 | 5.910 | 7.667 | 7.443 |

Note 38: Short term receivables and payments in advance

| | 2020/21 £millions | 2021/22 £millions |
|---|----------------------|----------------------|
| Money owed to us by: | | |
| 18.241 Central Government | | 19.946 |
| Local Government: | | |
| 28.810 - Council Tax/NDR owed by local residents/businesses | | 31.634 |
| 4.818 - Other | | 5.000 |
| 10.592 NHS | | 7.521 |
| 0.007 Public Corporations | | 0.006 |
| 7.383 Other organisations/individuals | | 10.948 |
| Loss Allowance: | | |
| -13.966 - Council Tax/NDR related | | -14.545 |
| -0.108 - Other trade debtors | | -0.133 |
| <u>55.777</u> Short term Receivables | | <u>60.377</u> |
| 4.188 Payments made in advance | | 4.492 |
| <u>59.965</u> | | <u>64.869</u> |

The Council Tax and NDR loss allowance has been provided by the district billing authorities and is not an allowance calculated by the Council. See the Council Tax and Business rate accounting policy no.26 for further details.

Note 39: Short term payables and receipts in advance

| 2020/21 £millions | | 2021/22 £millions |
|------------------------|-------------------------|------------------------|
| | Money we owe to: | |
| | Government Departments: | |
| -0.376 | - Central Government | -1.214 |
| -29.086 | - Local Government | -20.733 |
| -1.654 | - NHS | -1.498 |
| -0.026 | - Public Corporations | -0.035 |
| -55.729 | Other organisations | -82.903 |
| -9.193 | Employees (under IAS19) | -6.908 |
| <u>-96.064</u> | | <u>-113.291</u> |
| -4.257 | Receipts in advance | -11.943 |
| <u>-100.321</u> | | <u>-125.234</u> |

Note 40: Other long-term liabilities

| 2020/21 £millions | | 2021/22 £millions |
|--------------------------|--|------------------------|
| -39.873 | Finance Lease Liability - due in more than 1 year | -38.671 |
| -993.554 | Pensions liability | -870.033 |
| <u>-1,033.427</u> | | <u>-908.704</u> |

Note 41: Provisions

Provisions are recognised where the Council has a legal or constructive obligation arising from a past event that will probably require settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

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.

The table below sets out the provisions for 2021/22.

| 2020/21 £millions | | 2021/22 £millions |
|----------------------|--|----------------------|
| -3.257 | Total insurance provision (excl. MMI) set aside on 1 April | -3.510 |
| | Add: | |
| -2.135 | - premiums received from services | -1.936 |
| | Less: | |
| 0.921 | - insurance premiums paid | 1.302 |
| 0.470 | - net claims paid | 0.652 |
| 0.491 | - professional and administrative costs | 0.593 |
| -3.510 | Total insurance provision set aside on 31 March | -2.899 |
| | <u>Non-Service</u> | |
| -0.843 | NDR Collection Fund - Provision for appeals | -0.576 |
| | <u>Children's Services</u> | |
| -0.525 | Care Leavers Grant | -0.586 |
| | <u>Other Services</u> | |
| -1.072 | Highways Network | -1.846 |
| -1.356 | ECl Service | -0.780 |
| -0.119 | County Hall NNDR | -0.284 |
| -7.425 | Total Provisions due in less than 1 year | -6.971 |
| | <u>Municipal Mutual Insurance (MMI) Provision</u> | |
| -0.259 | Relating to asbestos claims paid by MMI | -0.260 |
| -0.259 | Total Provisions due in more than 1 year | -0.260 |

Insurance provision

The Council's own Insurance Fund directly covers a wide range of insurance risks. However, there are a very limited range of risks which are not covered by insurance and the Council charges any loss which arises directly to the service concerned. At the end of the year we have £3.159m of claims not yet finally agreed (£3.769m in 2020/21) which we have not yet charged to the Fund but have set aside this amount as a provision. The Council also has an earmarked reserve for the Insurance Fund, which currently contains £8.838m. As the Council self-insures, we must put aside funds for any future claims as well as the current claims we must still pay.

Note 42: Revenue and Capital Grants/Contributions Receipt in Advance

The Council has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the provider if not met. The balances at the year-end are as follows:

Capital grants/contributions

| 2020/21 £millions | | 2021/22 £millions |
|--|--|----------------------|
| <u>Capital Grant Receipts in Advance</u> | | |
| Where the conditions are likely to be met within 1 year: | | |
| -14.698 | - Standards Fund (Schools Department for Education) | -12.831 |
| -26.203 | - Department for Transport | -32.785 |
| -21.810 | - Local Enterprise Partnership - Local Growth Fund (MHCLG) | -14.842 |
| -4.959 | - Other | -0.024 |
| -67.670 | | -60.482 |
| Where the conditions are likely to be met in more than 1 year: | | |
| -0.589 | - Standards Fund (Schools Department for Education) | -0.589 |
| -0.128 | - Department for Transport | -0.014 |
| -13.725 | - Local Enterprise Partnership - Getting Building (MHCLG) | -11.472 |
| -0.121 | - Other | 0.000 |
| -14.563 | | -12.074 |
| <u>Capital Contribution Receipts in Advance (RIA)</u> | | |
| Where the conditions are likely to be met within 1 year: | | |
| -3.686 | - Section 106 Contributions | -2.545 |
| -1.046 | - Other Contributions to our Capital Schemes | -0.460 |
| -4.732 | | -3.005 |
| Where the conditions are likely to be met in more than 1 year: | | |
| -12.128 | - Section 106 Contributions | -12.886 |
| -0.470 | - Other Contributions to our Capital Schemes | -0.309 |
| -12.598 | | -13.195 |
| -72.402 | Total Capital Grant/Contributions RIA's, where conditions are likely to be met within 1 year | -63.487 |
| -27.161 | Total Capital Grant/Contributions RIA's, where conditions are likely to be met in more than 1 year | -25.269 |
| -99.563 | Total | -88.756 |

Revenue grants

| 2020/21 £millions | | 2021/22 £millions |
|--|---------------------------|-----------------------|
| <u>Revenue Grant/Contributions Receipts in Advance</u> | | |
| Where the conditions are likely to be met within 1 year: | | |
| -10.600 | - Central Government | -6.895 |
| -28.830 | - NHS | -31.608 |
| -0.086 | - Other Local Authorities | - |
| -2.036 | - Other organisations | -2.740 |
| -41.552 | | -41.243 |
| Where the conditions are likely to be met in more than 1 year: | | |
| -7.584 | - Central Government | -0.653 |
| -2.787 | - NHS | - |
| -2.835 | - Other organisations | -2.677 |
| -13.206 | | -3.330 |
| <u>-54.758</u> | | <u>-44.573</u> |

Note 43: Usable Reserves

The table below summarises the opening and closing balances for the usable reserves:

| 2020/21 £millions | | 2021/22 £millions |
|---|---|-----------------------|
| <u>General Fund - Revenue</u> | | |
| <u>Schools</u> | | |
| 24.506 | General Fund - Schools | 26.538 |
| <u>Local Authority</u> | | |
| 29.873 | General Fund - Other | 27.102 |
| 92.089 | Earmarked Reserves - set aside for revenue purposes | 161.273 |
| 10.138 | S31 Local Tax Income Guarantee Grant Reserve | 4.293 |
| 156.606 | | 219.206 |
| <u>Other Usable Capital Reserves</u> | | |
| 9.939 | Capital Receipts Reserve | 13.661 |
| 0.867 | Capital Grants Unapplied Reserve | 0.827 |
| 2.807 | Capital Contributions Unapplied Reserve | 2.755 |
| 13.613 | | 17.243 |
| <u>170.219</u> | Total Usable Reserves | <u>236.449</u> |

These reserves can be used by the Council 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). A brief description of each of the usable reserves is provided below:

General Fund – Schools

This balance represents the cumulative surplus available to Schools to support their revenue and capital spending. Although this reserve is reported within our accounts, the Council has no control over what the reserve can be spent on.

General Fund – Other

This balance represents the cumulative surplus available to the Council to support revenue spending and which has not been earmarked for a specific purpose.

Earmarked Reserves – set aside for revenue purposes

This balance represents monies available to support revenue spending but which the Council has earmarked for specific purposes.

S31 Local Tax Income Guarantee Grant Reserve

The Spending Review on 25 November 2020 announced that the Government would compensate local authorities for 75% of irrecoverable losses in Council Tax and Business Rates income expected in 2020-21 (the 'local tax income guarantee') due to the COVID-19 pandemic.

Under current collection fund accounting rules, the S31 grant will not be fully discharged against the Collection Fund deficit until 2022/23. This reserve is therefore not actually available but earmarked against the following year's collection fund deficit that will be charged to the Council when it is transferred from the Collection Fund Adjustment Account in 2022/23.

This reserve has been disclosed separately from the other Earmarked reserves to avoid overstating the Council's General Fund.

Capital Receipts Reserve

This reserve contains amounts raised through the sale of capital assets such as land and buildings. Capital reserves are not allowed to be used for revenue purposes and in certain cases can only be used for specific statutory purposes. The Usable Capital Receipts Reserve is a reserve established for specific statutory purposes.

Capital Grants & Contributions Unapplied Reserves

These reserves represent the balance of capital grants and contributions that have been recognised as income but have yet to be used to finance capital expenditure.

The movements in the Council's usable reserves are detailed in the Movement in Reserves Statement.

Note 44: Unusable Reserves

The table below summarises the opening and closing balances for the unusable reserves.

| 2020/21 £millions | | 2021/22 £millions |
|----------------------|---|----------------------|
| 192.344 | Revaluation Reserve | 227.721 |
| 354.568 | Capital Adjustment Account | 328.342 |
| 14.314 | Deferred Capital Receipts Reserve | 14.282 |
| -993.554 | Pensions Reserve | -870.033 |
| -10.193 | Collection Fund Adjustment Account | 2.443 |
| -9.193 | Accumulated Compensated Absences Adjustment Account | -6.908 |
| -14.735 | Dedicated Schools Grant Adjustment Account | -20.109 |
| -1.005 | Financial Instruments Adjustment Account | -0.960 |
| -1.305 | Pooled Investment Funds Adjustment Account | -0.636 |
| -468.759 | Total Unusable Reserves | -325.858 |

The following text gives a brief description of each of the unusable reserves and shows the in-year movement of each reserve to support the opening and closing amounts shown in the table above.

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment and Intangible Assets. 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 that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

| 2020/21 £millions | | 2021/22 £millions | 2021/22 £millions |
|----------------------|---|----------------------|----------------------|
| 174.443 | Balance at 1 April | | 192.344 |
| 41.499 | Upward revaluation of assets | 53.455 | |
| -9.825 | Revaluation/Impairment (losses) not charged to the Surplus/Deficit on the Provision of Services | -10.168 | |
| | | <hr/> | |
| 31.674 | Surplus/(Deficit) on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services | | 43.287 |
| -3.562 | Difference between fair value depreciation and historical cost dep'n | -4.079 | |
| -10.211 | Accumulated gains on asset disposals | -3.831 | |
| -13.773 | Amount written off to the Capital Adjustment Account | | -7.910 |
| | | <hr/> | |
| 192.344 | Balance at 31 March | | 227.721 |

Capital Adjustment Account

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

The Account also contains revaluation gains accumulated on property, plant and equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains. Note 11 provides details of the transactions posted to the Account, apart from those involving the Revaluation Reserve.

| 2020/21 £millions | | 2021/22 £millions |
|----------------------|--|----------------------|
| 368.215 | Balance at 1 April | 354.568 |
| | <u>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</u> | |
| -27.787 | - Charges for depreciation and impairment of non current assets/assets held for sale | -37.363 |
| -15.280 | - Revaluation losses on Property, Plant and Equipment | -14.691 |
| -0.458 | - Amortisation of intangible assets | -0.399 |
| -37.780 | - Revenue expenditure funded from capital under statute | -44.583 |
| | - 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 | -32.773 |
| -33.997 | | -32.773 |
| -115.302 | | -129.809 |
| 13.773 | Adjusting amounts written out of the Revaluation Reserve | 7.910 |
| -101.529 | Net written out amount of the cost of non current assets consumed in the year | -121.899 |
| | <u>Capital Financing applied in the year:</u> | |
| 1.172 | - use of the Capital Receipts Reserve to finance new capital expenditure | 0.885 |
| 78.604 | - Capital grants and contributions that have been applied to capital financing | 84.308 |
| 6.798 | - Statutory provision for the financing of capital investment charged against the General Fund balance | 7.841 |
| 1.308 | - Capital expenditure charged against the General Fund balance | 2.639 |
| 87.882 | | 95.673 |
| 354.568 | Balance at 31 March | 328.342 |

Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

| 2019/20 £millions | | 2020/21 £millions |
|----------------------|---|----------------------|
| 14.344 | Balance at 1 April | 14.314 |
| -0.030 | Amounts transferred to the Capital Receipts Reserve during the year | -0.032 |
| 14.314 | Balance at 31 March | 14.282 |

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different accounting arrangements for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly

responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the 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.

| 2020/21 £millions | | 2021/22 £millions |
|------------------------|--|------------------------|
| -754.797 | Balance at 1 April | -993.554 |
| -196.860 | Remeasurement gains / losses (-) on pension assets/liabilities | 177.118 |
| -77.756 | 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 | -91.065 |
| 35.859 | Employer's pensions contributions and direct payments to pensioners payable in the year | 37.468 |
| <u>-993.554</u> | Balance at 31 March | <u>-870.033</u> |

Collection Fund Adjustment Account

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

| 2020/21 £millions | | 2021/22 £millions |
|-----------------------|--|----------------------|
| 3.733 | Balance at 1 April | -10.193 |
| -0.802 | Amount by which Council Tax income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax income calculated for the year in accordance with statutory requirements | 7.354 |
| -13.124 | Amount by which NDR income credited to the Comprehensive Income and Expenditure Statement is different from NDR income calculated for the year in accordance with statutory requirements | 5.282 |
| <u>-10.193</u> | Balance at 31 March | <u>2.443</u> |

Accumulated Compensated Absences Adjustment Account

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

| 2020/21 £millions | | 2021/22 £millions |
|----------------------|---|----------------------|
| -6.990 | Balance at 1 April | -9.193 |
| 6.990 | Settlement or cancellation of accrual made at the end of the preceding year | 9.193 |
| -9.193 | Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | -6.908 |
| <u>-9.193</u> | Balance at 31 March | <u>-6.908</u> |

Dedicated Schools Grant Adjustment Account

Under the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2020, which came into effect on 29th November 2020, any local authority with a deficit on its school budget during the period of the regulation (1st April 2020 to 31st March 2023) must charge the amount of the deficit to an account established solely for the purpose of recognising deficits in its school's budget.

The new regulations confirm the existence of a deficit on the school's budget when the amount of expenditure incurred on the school's budget for the financial year beginning on 1st April 2020 (adjusted for any accumulated deficit from the previous financial year) exceeds the amount of the authority's Dedicated Schools Grant (and Sixth Form grant) in that financial year. Any subsequent in-year deficits, during the period of the regulation are transferred to this adjustment account to neutralise the impact on the General Fund.

Any in-year surplus (where Dedicated Schools Grant and Sixth Form grant income recognised in the year exceeds expenditure incurred on the school's budget) is recognised as an earmarked reserve (see Note 12 for further details) and not netted off the deficit balance in this adjustment account whilst the regulations are in effect. At the end of the effective period of the regulation, the deficit position will be offset by whatever surplus has accumulated. Government will review the position as at the end of the current regulation period to determine the need for any further extension of the regulations.

There was no in-year surplus recognised as an earmarked reserve as at 31 March 2022.

| 2020/21 £millions | | 2021/22 £millions |
|----------------------|---|----------------------|
| - | Balance as at 1 April | -14.735 |
| -11.079 | Transfer of Schools Budget Deficit to new Adjustment Account at 1 April 2020 | - |
| -11.079 | Restated Balance as at 1 April | -14.735 |
| - | In-year adjustments | -0.200 |
| -3.656 | In year Schools budget deficit debited to the Comprehensive Income and Expenditure Statement and transferred to the DSG Adjustment Accounts in accordance with statutory requirements | -5.174 |
| -14.735 | Balance at 31 March | -20.109 |

The in-year adjustment of £0.200m reported in the table above is the correction of a prior year adjustment that had been recognised in error (between DSG and the Schools General Fund). Further details on the Dedicated Schools Grant can be found in Note 22.

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses the account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred but reversed out of the General Fund Balance to the account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the account at 31 March 2022 will be charged to the General Fund over the next 21 years.

| 2020/21 £millions | | 2021/22 £millions |
|----------------------|--|----------------------|
| -1.051 | Balance at 1 April | -1.005 |
| 0.046 | Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements | 0.045 |
| -1.005 | Balance at 31 March | -0.960 |

Pooled Investment Funds Adjustment Account

From 1 April 2018, the Government introduced a mandatory statutory override requiring local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds to the newly-formed Pooled Investment Funds Adjustment Account throughout the duration of the override (currently 5 years until 31 March 2023 – though under review). The Council currently has three pooled fund investments, with the CCLA (Property); RLAM (Bonds) and M&G (Bonds). Any movements in fair value (previously reported in the Available-for-Sale Financial Instruments Adjustment Account) of this investment are posted to this unusable reserve through profit or loss.

| 2020/21 | | 2021/22 |
|----------------------|---|----------------------|
| £millions | | £millions |
| -1.038 | Balance at 1 April | -1.305 |
| -0.267 | Revaluation gains/(losses) on Pooled Investment Funds | 0.669 |
| <u>-1.305</u> | Balance at 31 March | <u>-0.636</u> |

Note 45: Cash and Cash Equivalents

The Council has several bank accounts for various purposes. Its main banking contract is with National Westminster Bank Plc.

The Council group together deposits or overdrafts with the same bank. This gives the following balance of cash and cash equivalents along with the bank overdraft.

| 2020/21 £millions | | 2021/22 £millions |
|----------------------|---|----------------------|
| 3.113 | Net Cash in hand | 1.401 |
| 80.630 | Short term Investment (initial maturity term less than 3 months) | 84.000 |
| 83.743 | Cash and cash equivalents sub total | 85.401 |
| -6.605 | Bank overdraft | -5.115 |
| 77.138 | Cash and cash equivalents at the end of the reporting period | 80.286 |

Note 46: Cash Flow Statement – Operating Activities

Adjustments to the net surplus or deficit on the provision of services for non-cash movements:

| 2020/21 £millions | | 2021/22 £millions |
|----------------------|---|----------------------|
| 40.933 | Net surplus(-)/deficit on the provision of services | 11.274 |
| -28.245 | Depreciation and amortisation | -37.762 |
| -15.083 | Impairment and other non-cash adjustments | -13.615 |
| -41.897 | IAS 19 - Pension Liability | -53.597 |
| -33.997 | Carrying amount of non-current assets sold | -32.773 |
| -50.427 | Movement in working capital | 1.140 |
| -169.649 | | -136.607 |
| 84.286 | Adjustment for items that are investing or financing activities | 88.792 |
| -44.430 | | -36.541 |

The cash flows for operating activities include the following items:

| 2020/21 £millions | | 2021/22 £millions |
|----------------------|-------------------|----------------------|
| -2.489 | Interest received | -2.731 |
| 19.636 | Interest paid | 19.783 |

Note 47: Cash Flow Statement – Investing Activities

| 2020/21 £millions | | 2021/22 £millions |
|----------------------|---|----------------------|
| 87.865 | Purchase of property, plant and equipment and intangible assets | 53.909 |
| 180.000 | Purchase of short term and long term investments | 215.000 |
| 2.818 | Other payments for investing activities | 0.019 |
| -6.047 | Proceeds from the sale of property, plant and equipment and intangible assets | -4.607 |
| -127.000 | Proceeds from short term and long term investments | -155.000 |
| -128.061 | Capital Grants received | -73.429 |
| -0.405 | Other receipts from investing activities | -1.033 |
| 9.170 | Net cash flows from investing activities | 34.859 |

Note 48: Cash Flow Statement – Financing Activities

| 2020/21 £millions | | 2021/22 £millions |
|----------------------|--|----------------------|
| -0.066 | Receipts from new long-term borrowing | -4.572 |
| 2.128 | Repayments of short term and long term borrowing | 2.009 |
| 1.001 | Other payments for financing activities | 1.097 |
| 3.063 | Net cash flows from financing activities | -1.466 |

Note 49: Reconciliation of Liabilities Arising from Financing Activities

2021/22

| | Liabilities | | | |
|---|------------------------|-------------------------|-------------------|----------------|
| | Long Term Borrowing | Short Term Borrowing | Finance Leases | PFI |
| Balance at 1st April 2021 | -344.303 | -7.220 | -0.382 | -40.588 |
| <u>Changes from financing cash flows</u> | | | | |
| New borrowings taken out | -1.740 | -2.830 | - | - |
| Repayment of borrowings/interest | 5.912 | - | - | - |
| Payment of finance lease liabilities | - | - | 0.005 | 1.091 |
| Total changes from financing cash flows | 4.172 | -2.830 | 0.005 | 1.091 |
| <u>Non-cash changes</u> | | | | |
| Interest accrued at year-end | -3.853 | - | - | - |
| Balance at 31st March 2022 | -343.984 | -10.050 | -0.377 | -39.497 |

2020/21

| | Liabilities | | | |
|---|------------------------|-------------------------|-------------------|----------------|
| | Long Term Borrowing | Short Term Borrowing | Finance Leases | PFI |
| Balance at 1st April 2020 | -346.161 | -7.395 | -0.387 | -41.584 |
| <u>Changes from financing cash flows</u> | | | | |
| New borrowings taken out | -0.066 | - | - | - |
| Repayment of borrowings/interest | 5.828 | 0.175 | - | - |
| Payment of finance lease liabilities | - | - | 0.005 | 0.996 |
| Total changes from financing cash flows | 5.762 | 0.175 | 0.005 | 0.996 |
| <u>Non-cash changes</u> | | | | |
| Interest accrued at year-end | -3.904 | - | - | - |
| Balance at 31st March 2021 | -344.303 | -7.220 | -0.382 | -40.588 |

Note 50: Contingent Liabilities

There are several on-going legal cases against the Council with no certainty regarding the percentage of success or the value of the claim:

- The Council continues to have a statutory obligation in relation to its closed landfill sites and aftercare of these facilities. There are mitigation actions in place, with regular inspection for minor leachate or gas outbreaks and minor remediation works undertaken as necessary. These make the possibility of a major incident remote, but do not altogether negate the risk. It is not possible to estimate the costs for such an incident with any accuracy, because it would be dependent on many highly variable factors such as the individual site concerned, the exact nature of the incident and the necessary actions to remedy (such as compensation and fines, volume of waste to be transported, nature of the waste involved, and degree of reconstruction needed at the site).
- There are several outstanding Insurance claims against the authority, where the likelihood of success for the claimant is negligible. The estimated value of these claims is approx. £1m. The outcome of these claims will be known in 2022/23.

Note 51: Trust Funds

The Council has not included the funds, which it manages on behalf of trusts, on its consolidated balance sheet because the money does not belong to us. As of 31 March 2022, the only trust managed by the Council was the Fieldhouse Trust. The Council is the only trustee of the Field House Trust. We can only use this money for helping the elderly people of Somerset, with preference for the elderly of Shepton Mallet. There is an extract from the Field House Trust accounts below:

| 2020/21 £millions | | 2021/22 £millions |
|------------------------------------|---------------------------------|------------------------------------|
| -0.054 | Total income | -0.054 |
| <u>0.055</u> | Total spending | <u>0.055</u> |
| <u>0.001</u> | (Surplus)/ Deficit | <u>0.001</u> |
| 0.522 | Value of fund - brought forward | 0.521 |
| <u>-0.001</u> | Movement in year | <u>-0.001</u> |
| <u>0.521</u> | Total value of the fund | <u>0.520</u> |

Note 52: Pension Schemes

Participation in Pension Schemes

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

The Council participates in four different pension schemes depending on their job:

- The Local Government Pension Scheme (LGPS), administered locally by the Council, is a defined benefit statutory scheme where benefits accrued up to 31 March 2022 are based on final salary and length of service on retirement. Changes to the LGPS came into effect from 1 April 2014 and any benefits accrued from this date will be based on career average re-valued salary.
- The Teachers' Pension Scheme is a notionally funded, defined-contribution scheme that is administered by Teachers' Pensions on behalf of the Department for Education. This means the Council pays contributions as if it were a funded scheme, when, in fact, it is not.
- The National Employment Savings Trust (NEST) is a defined contribution scheme, set up as part of the government's workplace pension reforms. As a trust-based plan, run by the NEST Corporation (a non-departmental public body that is accountable to Parliament through the Department for Work and Pensions), the Council pays contributions based on a percentage of pensionable pay.
- The NHS Pension Scheme is an unfunded multi-employer defined benefit scheme, administered by the NHS Business Service Authority and backed by the Exchequer. Pension benefits are based on final salary or career average earnings dependant on the time employees joined the scheme (there are three different sections – the 1995, 2008 and 2015 section). The Council pays contributions based on a percentage of pensionable pay, with the contribution rate reviewed every four years by the Government Actuary. We account for this scheme as a defined contribution plan, in-line with the NHS Manual.

Defined Contribution Schemes:

Teachers' Pension Scheme

This scheme is technically a defined benefit scheme but is accounted for as a defined contribution scheme as it's not possible to identify the authorities share of the liabilities.

The table below shows the costs in millions, and as a percentage of total pensionable pay:

| 2020/21 | | | 2021/22 | |
|---------------|-------|---------------------------------------|---------------|-------|
| £millions | % | | £millions | % |
| 14.426 | 23.68 | Pension costs charged to the accounts | 14.696 | 23.68 |
| 14.426 | | Total for the Year | 14.696 | |

There were no discretionary payments made during 2021/22.

National Employment Savings Trust

The table below shows the costs in millions, and as a percentage of total pensionable pay:

| 2020/21 | | | 2021/22 | |
|-----------|------|---------------------------------------|-----------|------|
| £millions | % | | £millions | % |
| 0.033 | 3.00 | Pension costs charged to the accounts | 0.036 | 4.00 |

Defined Benefit Schemes:

Unfunded Teachers Pensions

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and included within the tables below.

Local Government Pension Scheme

Characteristics and Associated Risks

The day-to-day management of the Fund is overseen by the Pension Fund Committee, whilst the day-to-day Fund administration is undertaken by Peninsula Pensions (a shared service arrangement provided by Devon County Council). Where appropriate some functions are delegated to the Fund's professional advisers.

As Administering Body to the Fund, the Council, after consultation with the Fund Actuary and other relevant parties, is responsible for the preparation and maintenance of the Funding Strategy Statement and the Statement of Investment Principles. These are amended when appropriate based on the Fund's performance and funding.

Contributions are set every 3 years as a result of the actuarial valuation of the Fund required by the LGPS Regulations 2013.

The most recent actuarial valuation of the Fund was carried out as at 31 March 2019, which set contributions for the period from 1 April 2020 to 31 March 2023. There are no minimum funding

requirements in the LGPS, but the contributions are generally set to target a funding level of 100% using the actuarial valuation assumptions.

In general, participating in a defined benefit pension scheme means that the Council is exposed to a number of risks:

- Investment risk. The Fund holds investment in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term, the short-term volatility can cause additional funding to be required if a deficit emerges.
- Interest rate risk. The Fund's liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the Fund holds assets such as equities the value of the assets and liabilities may not move in the same way.
- Inflation risk. All the benefits under the Fund are linked to inflation and so deficits may emerge to the extent that the assets are not linked to inflation.
- Longevity risk. In the event that the members live longer than assumed a deficit will emerge in the Fund. There are also other demographic risks.

In addition, as many unrelated employers participate in the Somerset County Council Pension Fund, there is an orphan liability risk where employers leave the Fund but with insufficient assets to cover their pension obligations so that the difference may fall on the remaining employers. All of the risks above may also benefit the Council e.g. higher than expected investment returns or employers leaving the Fund with excess assets which eventually get inherited by the remaining employers.

At the 2019 valuation, the deficit for the whole pool was calculated and allocated to each employer in proportion to their active payroll. The next re-allocation will be carried out at the 2022 valuation, should the employer remain in the pool. Each employer within the pool pays a contribution rate based on the cost of benefits of the combined membership of the pool. The Council recognises the cost of retirement benefits in the net cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge required to be made against the council tax is based on the cash payable in the year, so the real cost of retirement benefit is reversed out in the statement of Movement in Reserves.

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:

**Local Government
Pension Scheme &
Unfunded Benefit
Arrangements -
Liabilities**

**2020/21 2021/22
£millions £millions**

Comprehensive Income and Expenditure Statement

Net Cost of Services:

| | | |
|---|--------|---------|
| - current service cost | 63.053 | 80.574 |
| - past service cost and gains/losses arising from settlements | -3.708 | -10.037 |

Financing and Investment Income and Expenditure:

| | | |
|------------------------|--------|--------|
| - net interest expense | 18.411 | 20.528 |
|------------------------|--------|--------|

Total Post-employment Benefit Charged to the Surplus or Deficit on the Provision of Services

77.756 91.065

Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement

Remeasurement of the net defined benefit liability comprising:

| | | |
|---|----------|----------|
| - return on plan assets (excluding the amount included in the net interest expense) | -238.972 | -73.537 |
| - actuarial (gains) and losses arising on changes in demographic assumptions | -18.387 | - |
| - actuarial (gains) and losses arising on changes in financial assumptions | 478.012 | -108.306 |
| - experience (gain)/loss on defined benefit obligation | -23.793 | 4.725 |

196.860 -177.118

Total Post-employment Benefit Charged to the Comprehensive Income and Expenditure Statement

274.616 -86.053

Movement in Reserves Statement

Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits in accordance with the Code

-77.756 -91.065

Actual amount charged against the General Fund Balance for pensions in the year:

- employers' contributions payable to the scheme

35.859 37.468

Pensions 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:

| Local Government Pension Scheme & Unfunded Benefit Arrangements - Liabilities | | | |
|--|------------------------|------------------------|------------------------|
| | 2019/20 | 2020/21 | 2021/22 |
| | £millions | £millions | £millions |
| Present value of the defined benefit obligation: | | | |
| - Funded obligation | -1,661.739 | -2,148.658 | -2,115.707 |
| - Unfunded obligation | -39.316 | -39.449 | -36.467 |
| | <u>-1,701.055</u> | <u>-2,188.107</u> | <u>-2,152.174</u> |
| Fair value of plan assets | 946.258 | 1,194.553 | 1,282.141 |
| Net liability arising from defined benefit obligation | <u>-754.797</u> | <u>-993.554</u> | <u>-870.033</u> |

The net liability shows the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £870.033 million has a substantial impact on the net worth of the Council as recorded in the Balance Sheet.

The total liability includes an allowance to reflect the Court of Appeal judgement in respect of the McCloud and Sargeant cases which relate to age discrimination within the Judicial and Fire Pension schemes, respectively. Although the cases are not directly related to the Local Government Pension Scheme (LGPS), similar protections were given when the LGPS moved to a new scheme in 2014.

On 22 June 2022, the Government Actuary's Department (GAD) published its 2016 cost cap valuation report for the LGPS. The Pension Fund Actuary has advised that there is no immediate action the Fund needs to take, as there is still a challenge outstanding regarding the inclusion of McCloud in the cost cap. The Actuary will need to wait for the outcome of that challenge before it knows for sure the final outcome of the 2016 cost cap valuation. If the Government win the judicial review, the benefits will not change, and the chapter can be closed on the 2016 cost cap valuation. If the Government does not win, then the 2016 valuation may have to be revisited with the possibility that benefit improvements will be required and potentially backdated to April 2019.

For the purposes of the 2022 valuation, at this stage the Actuary are not proposing any change to their approach and are not anticipating this view to change. If any benefit changes are made then they will have a negligible effect on past service liabilities, and the Actuaries prudence allowance already allows for an element of regulatory uncertainty. In terms of contribution rates, The Actuary are suggesting it will not be making any changes to contributions because of the 2016 cost cap valuation. If a review of the cost cap valuation is required and leads to any changes in Scheme benefits, then this can be reflected in the following valuation.

The pension fund deficit as at 31 March 2022 has reduced by £123.521 million from 31 March 2021. It is important to note that the deficit figure reported above is prepared only for the accounting requirements of IAS19, and as LGPS Funds are usually invested in a range of asset classes, the performance of the assets may be quite different from that of the accounting liabilities (which are linked to corporate bonds) so the results can be very volatile from year to year. They are not relevant for funding purposes or for other statutory purposed under UK pensions legislation.

However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

| Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets: | 2020/21 | 2021/22 |
|---|------------------|------------------|
| | £millions | £millions |
| <i>Opening balance at 1 April</i> | 946.258 | 1,194.553 |
| Interest income | 15.972 | 21.565 |
| <u>Remeasurement gain/(loss):</u> | | |
| - return on plan assets (excluding the amount included in the net interest expense | 238.972 | 73.537 |
| Employer contributions - funded | 32.599 | 34.434 |
| Employer contributions - unfunded | 3.260 | 3.034 |
| Contributions by scheme participants | 9.171 | 9.470 |
| Benefits paid (including unfunded) | -50.573 | -51.711 |
| Other | -1.106 | -2.741 |
| <i>Closing balance at 31 March</i> | 1,194.553 | 1,282.141 |

The return on the Fund (on a bid value to bid value basis) for the year to 31 March 2022 is estimated to be 8.04%. The actual return on Fund assets over the year may be different.

The fair value of the Local Government Pension Scheme assets comprised:

| Fair Value of Scheme Assets | 2021/22 | | |
|--|---|-----------------------|--------------------|
| | Quoted in an active market £millions | Unquoted £millions | Total £millions |
| Cash and cash equivalents | 58.978 | - | 58.978 |
| Equities: | | | |
| - Brunel UK equity fund | - | 220.528 | 220.528 |
| - Standard Life Smaller Companies Fund | - | 6.411 | 6.411 |
| Private Equity: | | | |
| - Private Equity | - | 39.746 | 39.746 |
| Overseas Equities: | | | |
| - Brunel passive global equity fund | - | 353.871 | 353.871 |
| - Brunel global high alpha equity fund | - | 176.935 | 176.935 |
| - Brunel emerging market equity fund | - | 48.721 | 48.721 |
| - Brunel global smaller market equity fund | - | 85.903 | 85.903 |
| | - | 932.117 | 932.117 |
| Bonds: | | | |
| - Brunel Corporate Sterling Corporate Bond | - | 88.468 | 88.468 |
| - Brunel Multi-asset credit fund | - | 34.618 | 34.618 |
| | - | 123.086 | 123.086 |
| Gilts: | | | |
| - Brunel Passive Index-Linked Gilt Fund | - | 37.182 | 37.182 |
| - Brunel Passive Gilt Fund | - | 28.207 | 28.207 |
| | - | 65.389 | 65.389 |
| Property: | | | |
| - UK Property Funds | - | 102.571 | 102.571 |
| | - | 102.571 | 102.571 |
| Total assets | 58.978 | 1,223.163 | 1,282.141 |

Reconciliation of Present Value of the Scheme Liabilities

| Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation): | 2020/21 | 2021/22 |
|--|-------------------|-------------------|
| | £millions | £millions |
| Opening balance at 1 April | -1,701.055 | -2,188.107 |
| Current service cost | -63.053 | -80.574 |
| Interest cost | -34.383 | -42.093 |
| Contributions by scheme participants | -9.171 | -9.470 |
| Past service costs, including curtailments | -0.312 | -0.602 |
| Settlements | 5.126 | 13.380 |
| Benefits paid (including unfunded) | 50.573 | 51.711 |
| <u>Remeasurement gains and (losses):</u> | | |
| - actuarial gains/(losses) arising from changes in demographic assumptions | 18.387 | - |
| - actuarial gains/(losses) arising from changes in financial assumptions | -478.012 | 108.306 |
| - experience gain/(loss) on defined benefit obligation | 23.793 | -4.725 |
| Closing balance at 31 March | -2,188.107 | -2,152.174 |

There was a total of £0.602m of capitalised redundancy costs included within the Past service costs in the table above during 2021/22.

As a result of some members transferring into / out of the Council over the year liabilities have been settled at a cost different to the accounting reserve. During 2021/22, there were 12 transfers mostly in relation to Academy schools, where £13.380m of liabilities and £2.741m of assets were transferred to the new employer, resulting in a capitalised gain to the Council on settlements of £10.639m.

The value of the transferred defined benefit obligation for each settlement was calculated using assumptions derived based on market conditions at the date of transfer.

Impact on the Council's Cashflows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 25 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31 March 2022. The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other existing public service schemes may not provide benefits in relation to service after 31 March 2014 (or service after 31 March 2015 for other main existing public service pension schemes in England and Wales). The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants. It is estimated the Council will pay £32.888m contributions to the scheme in 2022/23.

The weighted average duration of the defined benefit obligation for scheme members is 21 years for 2021/22 (21 years in 2020/21).

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the 'projected unit method', an estimate of the pensions that will be payable in future years dependant on assumptions about mortality rates, salary levels, etc. With this method, the current service cost of the Local Government Scheme will increase as members of the scheme approach retirement.

Barnett Waddingham (public sector consulting actuary) assessed the value of the County Council Fund liabilities as at 31 March 2022, by rolling forward the value of the liabilities calculated for the Triennial valuation as at 31 March 2019 allowing for the different financial assumptions required under IAS19. A similar roll-forward approach was taken for the report as at 31 March 2021.

The principal assumptions used by the actuary have been:

| 2020/21 | | 2021/22 |
|---|--|---------|
| Mortality Assumptions: | | |
| <i>Longevity (in years) at 65 for current pensioners:</i> | | |
| 23.1 | - Men | 23.1 |
| 24.6 | - Women | 24.7 |
| <i>Longevity (in years) at 65 for future pensioners:</i> | | |
| 24.4 | - Men | 24.4 |
| 26.0 | - Women | 26.1 |
| 2.85% | Rate of Inflation (CPI) | 3.25% |
| 3.85% | Rate of increase in salaries | 4.25% |
| 2.85% | Rate of increase in pensions | 3.25% |
| 2.00% | Rate of discounting scheme liabilities | 2.60% |

| 2020/21 | | 2021/22 |
|-----------------------------------|---|----------|
| Post Retirement Mortality: | | |
| S3PA | Base table | S3PA |
| 90%/100% | Multiplier (Male/Female) | 90%/100% |
| CMI_2020 | Future Improvements Model | CMI_2020 |
| 1.25% | Long term rate of improvement (per annum) | 1.25% |
| 7.5 | Smoothing parameter | 7.5 |
| 0.5% | Initial addition parameter (per annum) | 0.5% |
| 25.0% | 2020 weight parameter | 25.0% |

The Actuary allowed for actual pension increase experience for the period from 2021-2022. This assumes that pension increases are in line with the annual pension increases set by the HM Treasury Revaluation Order.

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analysis below has 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 estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit method.

The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

| Sensitivity Analysis | £000's | £000's | £000's |
|---|----------------|-------------|----------------|
| Adjustment to discount rate | +0.1% | 0.0% | -0.1% |
| Present value of total obligation | 2,108,781 | 2,152,174 | 2,196,504 |
| Projected service cost | 65.740 | 68.057 | 70.448 |
| Adjustment to long term salary increase | +0.1% | 0.0% | -0.1% |
| Present value of total obligation | 2,154,995 | 2,152,174 | 2,149,377 |
| Projected service cost | 68.094 | 68.057 | 68.020 |
| Adjustment to pension increases and deferred revaluation | +0.1% | 0.0% | -0.1% |
| Present value of total obligation | 2,193,357 | 2,152,174 | 2,111,806 |
| Projected service cost | 70.428 | 68.057 | 65.758 |
| Adjustment to mortality age rating assumption | +1 Year | None | -1 Year |
| Present value of total obligation | 2,247,530 | 2,152,174 | 2,061,055 |
| Projected service cost | 70.857 | 68.057 | 65.356 |

NHS Pension Scheme

In line with the NHS Manual, the Council is required to account for this scheme as a defined contribution plan. Any additional benefits awarded upon early retirement outside of the terms of this scheme are accounted for on a defined benefit basis and included within the tables above

The table below shows the costs in millions, and as a percentage of total pensionable pay:

| 2020/21 | | | 2021/22 | |
|-----------|-------|---------------------------------------|-----------|-------|
| £millions | % | | £millions | % |
| 0.773 | 14.38 | Pension costs charged to the accounts | 0.742 | 14.38 |

There were no discretionary payments made during 2021/22.

Note 53: Group Accounts

Group accounts bring together the accounts of Somerset County Council and other parties in which the Council has a stakeholding.

Futures for Somerset

The Council has an associate interest in Futures for Somerset, a long-term strategic partnership established as part of the Building Schools for the Future initiative. Although the Council is deemed to have significant influence on Futures for Somerset our share of the assets and liabilities are not material and therefore Group Accounts are not produced.

The company's accounts can be obtained from:

Futures for Somerset

The Rollercoaster

Parkway

Bridgwater

Somerset, TA6 4RL

The Pension Fund

Local Government Pension Scheme (LGPS)

The Council has a statutory obligation to operate a Pension Fund for Local Government staff in Somerset. A more detailed analysis of the Fund's financial year is available as a supplementary booklet from the Chief Financial Officer.

The following disclosures are an extract from the Somerset County Pension Fund Statement of Accounts, for the year-ending 31st March 2022.

Fund Account

| 2020/2021 | | 2021/2022 | | |
|-----------------|--|--|-----------------|-------|
| £ millions | £ millions | £ millions | £ millions | Notes |
| | | Contributions and other income | | |
| 22.585 | | Contributions from employees | 24.077 | 4 |
| 88.932 | | Contributions from employers | 93.882 | 4 |
| 3.043 | | Recoveries from member organisations | 2.728 | 4 |
| 8.408 | | Transfer values received | 11.494 | 5 |
| 122.968 | | | 132.181 | |
| | | Less benefits and other payments | | |
| -84.305 | | Recurring pensions | -87.162 | 4 |
| -10.871 | | Lump sum on retirement | -13.189 | 4 |
| -1.912 | | Lump sum on death | -1.994 | 4 |
| -17.031 | | Transfer values paid | -9.115 | 5 |
| -0.377 | | Refund of contributions to leavers | -0.320 | 6 |
| -114.496 | | | -111.780 | |
| 8.472 | Net additions from dealings with members | | 20.401 | |
| | | Management Expenses | | |
| -1.270 | | Administrative expenses | -1.363 | 7 |
| -7.183 | | Investment management expenses | -8.511 | 8 |
| -0.681 | | Oversight and governance expenses | -0.583 | 9 |
| -9.134 | | | -10.457 | |
| -0.662 | Net additions including management expenses | | 9.944 | |
| | | Investment income | | |
| 15.109 | | Investment income received | 14.981 | 10 |
| 4.037 | | Investment income accrued | 0.620 | 10 |
| -0.115 | | Less irrecoverable tax | 0.000 | |
| 19.031 | | | 15.601 | |
| | | Change in market value of investments | | |
| 105.819 | | Realised profit or loss | 37.169 | 13 |
| 439.074 | | Unrealised profit or loss | 163.310 | 13 |
| 544.893 | | | 200.479 | |
| 563.924 | Net return on investments | | 216.080 | |
| 563.262 | Net increase/ (decrease) in the net assets available for benefits during the year | | 226.024 | |

Table continued on next page

Fund Account (continued)

| 2020/2021 | | 2021/2022 | | |
|--------------------------|---|--|--------------------------|-------|
| £ millions | £ millions | £ millions | £ millions | Notes |
| | | Change in actuarial present value of promised retirement benefits | | |
| -1,265.728 | Vested benefits | 54.133 | | 14 |
| <u>4.219</u> | Non-vested benefits | <u>5.743</u> | | 14 |
| -1,261.509 | Net change in present value of promised benefits | | 59.876 | |
| | | Net increase/(decrease) in the fund during the year | | |
| -698.247 | Add net liabilities at beginning of year | | 285.900 | |
| -1,615.317 | | | -2,313.564 | |
| <u>-2,313.564</u> | Net liabilities at end of year | | <u>-2,027.664</u> | |

Net Asset Statement

| On 31 March 2021 £ millions | | On 31 March 2022 £ millions | Notes |
|-----------------------------------|---|-----------------------------------|-------|
| | Investment assets and liabilities | | |
| 2,608.459 | Investment assets | 2,837.350 | 11 |
| -0.011 | Investment liabilities | 0.000 | 11 |
| 3.937 | Other investment balances | 0.620 | 15 |
| | Current assets | | |
| 4.432 | Contributions due from employers | 4.078 | |
| 0.501 | Cash at bank | 0.500 | |
| 3.755 | Other debtors | 4.713 | |
| | Current liabilities | | |
| 0.000 | Unpaid benefits | 0.000 | |
| 0.000 | Bank overdraft | 0.000 | |
| -2.001 | Other creditors | -2.165 | |
| 2,619.072 | Net assets of the scheme available to fund benefits at end of year | 2,845.096 | |
| | Actuarial present value of promised retirement benefits | | |
| -4,848.897 | Vested benefits | -4,794.764 | 14 |
| -83.739 | Non-vested benefits | -77.996 | 14 |
| -2,313.564 | Net liabilities at end of year | -2,027.664 | |

Notes to the Accounts

Note 1: Description of the fund

The Somerset County Council pension fund is a defined benefit pension plan for the employees of the County Council and other employers in Somerset. The fund is part of the Local Government Pension Scheme (LGPS). The LGPS is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- the Local Government Pension Scheme Regulations 2013 (as amended);
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended); and
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

The fund receives contributions and investment income to meet pension benefits and other liabilities related to the majority of the County Council's employees. It does not cover teachers (whose pensions are managed through the Government's Department for Education). The fund also extends to cover employees of district councils, civilian employees of the Avon and Somerset Police (police officers have a separate scheme) and employees of other member bodies. A full list of employers who paid into the fund during the financial year is contained in note 4 of the accounts.

Contributions by employees are based on nine-tiered contribution bands dependent on the individual employee's pay, the nine contribution bands range from 5.5% to 12.5%. Nationally the Government estimate the average employee contribution is 6.3%.

All employers' contribution rates are decided by the fund's actuary every three years as part of this valuation of the fund. The rates for the 2021-2022 financial year were the second year covered by the valuation of the fund as at 31 March 2019. For Somerset County Council, for example, the employer's contribution rate for the three years covered by this valuation is 18.1% for each of the years from 2020 to 2023 plus a fixed sum of £9.33m for 2020/2021, £9.67m for 2021/2022 and £10.03m for 2022/2023. This compares with a rate of 15.5% and a lump sum of £12.81m for the 2019/2020 year set under the 2016 valuation. A common contribution rate will, in the long term, be enough to meet the liabilities of the fund assessed on a full-funding basis – this was 24.3% at the 2019 valuation (22.9% at the 2016 valuation). This common contribution rate can be split into amounts that meet new service and an amount needed to make up the deficit in the fund, the common rate of 24.3% is made up of a rate of 17.8% for new service and 6.5% for deficit funding. As part of the 2019 valuation all employers except academy schools have agreed to meet the deficit funding portion by paying a fixed monetary amount rather than a percentage of pensionable pay (as demonstrated by the example of Somerset County Council above). The aim of this is to remove the volatility caused by changing staff levels. At the valuation the actuary estimated that the fund's assets covered 86% of the fund's liabilities.

The pension and lump-sum payments that employees receive when they retire are linked to their final year's salary for pre-31 March 2014 service and to career average re-valued earnings (CARE) for service since 1st April 2014, along with how long they have worked for an employer within the fund. Increases in pension payments linked to inflation come out of the fund.

Note 2: Basis of preparation

The statement of accounts summarises the fund's transactions for the 2021/22 financial year and its financial position at 31 March 2022. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the Code) which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts have been prepared on a going concern basis.

Note 3: Accounting policies

The Fund account is prepared on a full accrual basis, with the exception of transfer values. As a result the following apply:

- investments and financial assets are included at fair value;
- the majority of listed investments are stated at the bid price or the last traded price, depending on the convention of the stock exchange on which they are quoted, at the date of the net assets statement;
- fixed interest securities are valued excluding accrued income;
- pooled investment vehicles are stated at bid price for funds with bid/offer spreads, or single price (typically net asset value) where there are no bid/offer spreads, as provided by the investment manager of the respective pooled investment vehicle;
- forward foreign exchange contracts are valued using the foreign exchange rate at the date of the net asset statement;
- The Neuberger Berman Crossroads 2010 fund, Neuberger Berman Crossroads XX fund, Neuberger Berman Crossroads XXI fund and Neuberger Berman Crossroads XXII fund are valued at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines (2018). Investments are not publicly listed and as such there is a degree of estimation involved in the valuation. Quarterly valuation statements for private equity investments are produced a significant length of time after the quarter end, and consequently the value we use for each unit of the private equity funds in the accounts is the audited value of the private equity funds at 31 December;
- the South West Regional Venture Fund is valued at cost;
- the fund's holding in the shares of Brunel Pension Partnership Ltd is valued at cost;
- contributions and benefits are accounted for in the period in which they fall due;
- interest on deposits and fixed interest securities are accrued if they are not received by the end of the financial year;

- interest on investments are accrued if they are not received by the end of the financial year;
- all dividends and interest on investments are accounted for on 'ex-dividend' dates;
- all settlements for buying and selling of investments are accrued on the day of trading;
- transfer values are accounted for when money is received or paid;
- the fund has significant investments overseas. The value of these investments in the net asset statement is converted into sterling at the exchange rates on 31 March. Income receipts, and purchases and sales of overseas investments, are normally converted into sterling at or about the date of each transaction and are accounted for using the actual exchange rate received. Where the transaction is not linked to a foreign exchange transaction to convert to sterling the exchange rate on the day of transaction is used to convert the transaction into sterling for accounting purposes; and
- Cash and cash equivalents on the Net Asset statement are restricted to 'cash at bank' and 'bank overdraft'. All cash (overdraft) not in the pensions fund's standard bank account with NatWest is treated as an Investment asset and is shown in note 11.

Note 4: Contributions and benefits

| 2021/2022 | Somerset County Council £ millions | Other scheduled employers £ millions | Admitted employers £ millions | Total £ millions |
|---|---|---|-------------------------------------|----------------------|
| Employees' contributions | | | | |
| - Normal | 8.126 | 14.274 | 1.419 | 23.819 |
| - Additional | 0.108 | 0.149 | 0.001 | 0.258 |
| Total | <u>8.234</u> | <u>14.423</u> | <u>1.420</u> | 24.077 |
| Employers' contributions | | | | |
| - Normal | 23.295 | 38.860 | 4.041 | 66.196 |
| - Augmentation | 0.346 | 0.484 | 0.168 | 0.998 |
| - Deficit funding | 9.670 | 13.663 | 3.355 | 26.688 |
| Total | <u>33.311</u> | <u>53.007</u> | <u>7.564</u> | 93.882 |
| Recurring pension and lump sum payments | -48.225 | -43.452 | -10.668 | -102.345 |
| Money recovered from member organisations | 1.452 | 1.262 | 0.014 | 2.728 |
| | <u>-5.228</u> | <u>25.240</u> | <u>-1.670</u> | <u>18.342</u> |

| 2020/2021 | Somerset County Council £ millions | Other scheduled employers £ millions | Admitted employers £ millions | Total £ millions |
|---|---|---|-------------------------------------|----------------------|
| Employees' contributions | | | | |
| - Normal | 7.625 | 13.329 | 1.421 | 22.375 |
| - Additional | 0.092 | 0.109 | 0.009 | 0.210 |
| Total | <u>7.717</u> | <u>13.438</u> | <u>1.430</u> | 22.585 |
| Employers' contributions | | | | |
| - Normal | 22.004 | 36.250 | 3.968 | 62.222 |
| - Augmentation | 0.143 | 0.529 | 0.030 | 0.702 |
| - Deficit funding | 9.330 | 13.218 | 3.460 | 26.008 |
| Total | <u>31.477</u> | <u>49.997</u> | <u>7.458</u> | 88.932 |
| Recurring pension and lump sum payments | -45.845 | -41.203 | -10.040 | -97.088 |
| Money recovered from member organisations | 1.523 | 1.505 | 0.015 | 3.043 |
| | <u>-5.128</u> | <u>23.737</u> | <u>-1.137</u> | <u>17.472</u> |

Note 4: Contributions and benefits (continued)

| | Employees' contributions £ millions | Employers' contributions £ millions | Total £ millions |
|--|--|--|-----------------------------|
| County council | | | |
| Somerset | 8.234 | 33.311 | 41.545 |
| Police & Crime Commissioner | | | |
| Avon & Somerset | 5.990 | 17.416 | 23.406 |
| District councils | | | |
| Mendip | 0.390 | 1.899 | 2.289 |
| Sedgemoor | 0.729 | 3.508 | 4.237 |
| South Somerset | 0.761 | 3.503 | 4.264 |
| Somerset West & Taunton | 1.288 | 5.393 | 6.681 |
| Other bodies | | | |
| Avon and Somerset Magistrates Courts | 0.000 | 1.123 | 1.123 |
| Exmoor National Park | 0.137 | 0.583 | 0.720 |

Table continued on next page

Note 4: Contributions and benefits (continued)

| | Employees' contributions £ millions | Employers' contributions £ millions | Total £ millions |
|---------------------------------------|---|---|---------------------|
| Parish and town councils | | | |
| Axbridge Town Council | 0.001 | 0.005 | 0.006 |
| Berrow Parish Council | 0.001 | 0.003 | 0.004 |
| Bishop Hull Parish Council | 0.001 | 0.003 | 0.004 |
| Bridgwater Town Council | 0.014 | 0.053 | 0.067 |
| Burnham & Highbridge Town Council | 0.019 | 0.068 | 0.087 |
| Castle Cary Town Council | 0.003 | 0.010 | 0.013 |
| Chard Town Council | 0.017 | 0.057 | 0.074 |
| Cheddar Parish Council | 0.003 | 0.009 | 0.012 |
| Coleford Parish Council | 0.001 | 0.003 | 0.004 |
| Comeytrove Parish Council | 0.001 | 0.003 | 0.004 |
| Creech St Michael Parish Council | 0.001 | 0.004 | 0.005 |
| Crewkerne Town Council & Burial Board | 0.008 | 0.032 | 0.040 |
| East Coker Parish Council | 0.001 | 0.002 | 0.003 |
| Frome Town Council | 0.050 | 0.173 | 0.223 |
| Glastonbury Town Council | 0.014 | 0.051 | 0.065 |
| Iminster Town Council | 0.007 | 0.024 | 0.031 |
| Langport Town Council | 0.001 | 0.006 | 0.007 |
| Lower Brue Drainage Board | 0.047 | 0.148 | 0.195 |
| Minehead Town Council | 0.010 | 0.037 | 0.047 |
| Nether Stowey Parish Council | 0.001 | 0.004 | 0.005 |
| North Petherton Town Council | 0.001 | 0.002 | 0.003 |
| Puriton Parish Council | 0.001 | 0.003 | 0.004 |
| Shepton Mallet Town Council | 0.008 | 0.027 | 0.035 |
| Somerton Town Council | 0.004 | 0.016 | 0.020 |
| Street Parish Council | 0.006 | 0.019 | 0.025 |
| Watchet Town Council | 0.004 | 0.007 | 0.011 |
| Wellington Town Council | 0.005 | 0.018 | 0.023 |
| Wells Burial Board & Parish Council | 0.028 | 0.089 | 0.117 |
| West Coker Parish Council | 0.001 | 0.003 | 0.004 |
| Williton Parish Council | 0.001 | 0.006 | 0.007 |
| Wincanton Town Council | 0.005 | 0.020 | 0.025 |
| Yeovil Town Council | 0.014 | 0.047 | 0.061 |

Table continued on next page

Note 4: Contributions and benefits (continued)

| | Employees' contributions £ millions | Employers' contributions £ millions | Total £ millions |
|--|---|---|---------------------|
| Further-education colleges | | | |
| Bridgwater and Taunton College | 0.808 | 2.693 | 3.501 |
| Richard Huish Sixth Form College | 0.160 | 0.503 | 0.663 |
| Strode College | 0.163 | 0.625 | 0.788 |
| Yeovil College | 0.216 | 0.612 | 0.828 |
| Academies | | | |
| Ansford Academy | 0.036 | 0.142 | 0.178 |
| Ashill Primary Academy | 0.003 | 0.013 | 0.016 |
| Avishayes Academy | 0.020 | 0.083 | 0.103 |
| Axbridge Academy | 0.014 | 0.057 | 0.071 |
| Barwick and Stoford School | 0.001 | 0.002 | 0.003 |
| Bath & Wells Academy Trust | 0.329 | 1.317 | 1.646 |
| Bishop Fox's Academy | 0.061 | 0.247 | 0.308 |
| Blackbrook Primary School | 0.015 | 0.067 | 0.082 |
| Brent Knoll Primary School | 0.012 | 0.049 | 0.061 |
| Bridgwater College Academy | 0.165 | 0.674 | 0.839 |
| Brookside Academy | 0.068 | 0.279 | 0.347 |
| Bruton Sexseys Academy | 0.062 | 0.250 | 0.312 |
| Brymore Academy | 0.064 | 0.256 | 0.320 |
| Buckland St. Mary Church of England School | 0.004 | 0.018 | 0.022 |
| Buckler's Mead Academy | 0.047 | 0.189 | 0.236 |
| Castle Academy | 0.078 | 0.301 | 0.379 |
| Castle Primary School | 0.010 | 0.044 | 0.054 |
| Charlton Horethorn School | 0.004 | 0.016 | 0.020 |
| Cheddar First School | 0.016 | 0.073 | 0.089 |
| Chilton Trinity Academy | 0.044 | 0.176 | 0.220 |
| Countess Gytha Primary School | 0.013 | 0.053 | 0.066 |
| Courtfields Academy | 0.052 | 0.209 | 0.261 |

Table continued on next page

Note 4: Contributions and benefits (continued)

| | Employees' contributions £ millions | Employers' contributions £ millions | Total £ millions |
|--|--|--|-----------------------------|
| Academies (continued) | | | |
| Crispin Academy | 0.055 | 0.219 | 0.274 |
| Critchill School | 0.033 | 0.138 | 0.171 |
| Danesfield Academy | 0.022 | 0.090 | 0.112 |
| Draycott and Rodney Stoke First School | 0.004 | 0.016 | 0.020 |
| East Brent School | 0.007 | 0.030 | 0.037 |
| East Huntspill Primary School | 0.005 | 0.021 | 0.026 |
| Enmore Academy | 0.006 | 0.028 | 0.034 |
| Fairlands Middle School | 0.021 | 0.091 | 0.112 |
| Hambridge Primary School | 0.010 | 0.040 | 0.050 |
| Hamp Academy | 0.024 | 0.097 | 0.121 |
| Hatch Beauchamp Primary School | 0.003 | 0.011 | 0.014 |
| Hayesdown Academy | 0.017 | 0.074 | 0.091 |
| Haygrove Academy | 0.066 | 0.258 | 0.324 |
| Hemington Primary School | 0.004 | 0.018 | 0.022 |
| Holy Trinity Church of England School | 0.028 | 0.118 | 0.146 |
| Holyrood Academy | 0.072 | 0.299 | 0.371 |
| Horrington Primary School | 0.008 | 0.033 | 0.041 |
| Hugh Sexey's School | 0.032 | 0.131 | 0.163 |
| Huish Academy | 0.031 | 0.130 | 0.161 |
| Huish Episcopi Academy | 0.086 | 0.341 | 0.427 |
| Huish Episcopi Primary Academy | 0.011 | 0.047 | 0.058 |
| Isambard Kingdom Brunel School | 0.012 | 0.048 | 0.060 |
| King Alfred School | 0.068 | 0.305 | 0.373 |
| King Arthur's School | 0.021 | 0.083 | 0.104 |
| King Edward Road Nursery | 0.010 | 0.040 | 0.050 |
| King Ina (Monteclefe) | 0.025 | 0.107 | 0.132 |
| Kings of Wessex Academy | 0.080 | 0.297 | 0.377 |
| Kings of Wessex Leisure | 0.026 | 0.055 | 0.081 |
| Kingsmead Academy | 0.058 | 0.234 | 0.292 |

Table continued on next page

Note 4: Contributions and benefits (continued)

| | Employees' contributions £ millions | Employers' contributions £ millions | Total £ millions |
|-------------------------------|--|--|-----------------------------|
| Academies (continued) | | | |
| Leigh On Mendip First School | 0.007 | 0.028 | 0.035 |
| Lympsham School | 0.011 | 0.047 | 0.058 |
| Maiden Beech Academy | 0.015 | 0.062 | 0.077 |
| Manor Court Primary School | 0.025 | 0.113 | 0.138 |
| Mark Academy | 0.011 | 0.048 | 0.059 |
| Mendip School | 0.063 | 0.261 | 0.324 |
| Middlezoy Primary School | 0.005 | 0.018 | 0.023 |
| Milford Junior School | 0.032 | 0.130 | 0.162 |
| Minehead First School | 0.027 | 0.113 | 0.140 |
| Minehead Middle School | 0.057 | 0.222 | 0.279 |
| Minerva Primary School | 0.019 | 0.078 | 0.097 |
| Neroche Primary School | 0.012 | 0.053 | 0.065 |
| North Cadbury School | 0.008 | 0.032 | 0.040 |
| Northgate Primary School | 0.025 | 0.105 | 0.130 |
| Nunney First School | 0.004 | 0.018 | 0.022 |
| Oakfield Academy | 0.053 | 0.155 | 0.208 |
| Old Cleeve Academy | 0.011 | 0.048 | 0.059 |
| Othery Primary School | 0.003 | 0.014 | 0.017 |
| Otterhampton Primary School | 0.009 | 0.037 | 0.046 |
| Pawlett Primary School | 0.003 | 0.013 | 0.016 |
| Pen Mill Academy | 0.013 | 0.055 | 0.068 |
| Preston Academy | 0.062 | 0.252 | 0.314 |
| Preston C of E Primary School | 0.068 | 0.250 | 0.318 |
| Primrose Lane Primary School | 0.021 | 0.086 | 0.107 |
| Priorswood Academy | 0.013 | 0.054 | 0.067 |
| Puriton Primary School | 0.010 | 0.042 | 0.052 |
| Redstart Academy | 0.041 | 0.161 | 0.202 |
| Ruishton Primary School | 0.019 | 0.081 | 0.100 |

Table continued on next page

Note 4: Contributions and benefits (continued)

| | Employees' contributions £ millions | Employers' contributions £ millions | Total £ millions |
|--|--|--|-----------------------------|
| Academies (continued) | | | |
| Selwood Academy | 0.034 | 0.134 | 0.168 |
| Selworthy School | 0.082 | 0.349 | 0.431 |
| Shipham Church of England First School | 0.008 | 0.035 | 0.043 |
| Spaxton Primary School | 0.006 | 0.026 | 0.032 |
| St. Dunstan's Academy | 0.029 | 0.122 | 0.151 |
| St. Cuthbert's Academy | 0.012 | 0.051 | 0.063 |
| St. Michael's Academy | 0.027 | 0.112 | 0.139 |
| St. Michael's Church of England School | 0.009 | 0.040 | 0.049 |
| St. Peter's Academy | 0.009 | 0.039 | 0.048 |
| St Peters Nursery | 0.008 | 0.035 | 0.043 |
| Stanchester Academy | 0.032 | 0.132 | 0.164 |
| Steiner Academy, Frome | 0.020 | 0.120 | 0.140 |
| Stogursey Primary School | 0.006 | 0.026 | 0.032 |
| Tatworth Academy | 0.010 | 0.044 | 0.054 |
| Taunton Academy | 0.141 | 0.590 | 0.731 |
| The Blue School, Wells | 0.103 | 0.411 | 0.514 |
| Weare Academy | 0.014 | 0.062 | 0.076 |
| Wedmore Academy | 0.016 | 0.069 | 0.085 |
| Wellesley Park Primary School | 0.019 | 0.081 | 0.100 |
| West Huntspill Primary School | 0.009 | 0.037 | 0.046 |
| West Monkton Primary School | 0.057 | 0.234 | 0.291 |
| West Somerset Community College | 0.043 | 0.182 | 0.225 |
| Westfield Academy | 0.074 | 0.285 | 0.359 |
| Westover Green Academy | 0.042 | 0.153 | 0.195 |
| Whitstone Academy | 0.040 | 0.158 | 0.198 |
| Willowdown Academy | 0.024 | 0.100 | 0.124 |
| Winsham Primary School | 0.004 | 0.018 | 0.022 |
| Woolavington Academy | 0.014 | 0.062 | 0.076 |
| Total other scheduled employers | 14.423 | 53.007 | 67.430 |

Table continued on next page

Note 4: Contributions and benefits (continued)

| | Employees' contributions £ millions | Employers' contributions £ millions | Total £ millions |
|---|---|---|---------------------|
| Admitted bodies | | | |
| Abri | 0.243 | 1.288 | 1.531 |
| Aster Communities Ltd | 0.033 | 2.309 | 2.342 |
| BAM FM | 0.003 | 0.012 | 0.015 |
| Capita | 0.002 | 0.009 | 0.011 |
| Dimensions | 0.377 | 0.858 | 1.235 |
| Edward and Ward Ltd | 0.003 | 0.002 | 0.005 |
| Everyone Active | 0.072 | 0.258 | 0.330 |
| Freedom Leisure | 0.011 | 0.044 | 0.055 |
| Glen Cleaning Company Ltd | 0.012 | 0.054 | 0.066 |
| Homes in Sedgemoor | 0.145 | 0.441 | 0.586 |
| Idverde Ltd | 0.011 | 0.043 | 0.054 |
| Imperial Cleaning | 0.000 | 0.000 | 0.000 |
| KGB South West | 0.011 | 0.049 | 0.060 |
| Leisure East Devon | 0.002 | 0.004 | 0.006 |
| Lifestyle Fitness | 0.002 | 0.008 | 0.010 |
| Magna West Somerset Housing Association | 0.056 | 0.264 | 0.320 |
| Mama Bear's | 0.002 | 0.007 | 0.009 |
| MD Building Services | 0.018 | 0.061 | 0.079 |
| National Autistic Society | 0.008 | 0.045 | 0.053 |
| NSL Ltd | 0.016 | 0.061 | 0.077 |
| Pabulum | 0.003 | 0.012 | 0.015 |
| SASP | 0.009 | 0.004 | 0.013 |
| Shared Lives South West | 0.001 | 0.006 | 0.007 |
| Society of Local Council Clerks | 0.042 | 0.137 | 0.179 |
| Somerset Care Ltd | 0.021 | 0.267 | 0.288 |
| Somerset Skills & Learning | 0.070 | 0.187 | 0.257 |
| South West Audit Partnership | 0.128 | 0.549 | 0.677 |
| South West Heritage | 0.053 | 0.164 | 0.217 |
| South West Provincial Councils | 0.045 | 0.343 | 0.388 |
| Suez Recycling | 0.021 | 0.078 | 0.099 |
| Total admitted employers | 1.420 | 7.564 | 8.984 |
| Total | 24.077 | 93.882 | 117.959 |

Note 5: Transfer values

| 2020/2021 £ millions | | 2021/2022 £ millions |
|---------------------------------------|-------------------------------------|---------------------------------------|
| 0.000 | Group transfer values received | 0.950 |
| 8.408 | Individual transfer values received | 10.543 |
| 8.408 | | 11.493 |
| -7.955 | Group transfer values paid | -1.434 |
| -9.076 | Individual transfer values paid | -7.681 |
| -17.031 | | -9.115 |

Note 6: Refunds

| 2020/2021 £ millions | | 2021/2022 £ millions |
|---------------------------------------|---|---------------------------------------|
| -0.377 | Contributions refunded to members who leave service | -0.316 |
| -0.014 | Interest accumulated on refunds agreed in the past | -0.006 |
| -0.391 | | -0.322 |
| 0.000 | Deductions from contributions equivalent premium | 0.000 |
| 0.014 | Less payments to Department for Work and Pensions contributions equivalent premium | 0.002 |
| -0.377 | | -0.320 |

Note 7: Administrative expenses

| 2020/2021 £ millions | | 2021/2022 £ millions |
|-------------------------|--|-------------------------|
| 0.000 | Benefits administration costs charged by Somerset CC | 0.000 |
| <u>-1.262</u> | Benefits administration costs charged by Devon CC | <u>-1.339</u> |
| -1.262 | | -1.339 |
| 0.000 | Legal advice costs charged by Somerset CC | 0.000 |
| <u>-0.008</u> | External legal advice | <u>-0.024</u> |
| -0.008 | | -0.024 |
| <u>-1.270</u> | | <u>-1.363</u> |

Note 8: Investment management expenses

| 2020/2021 £ millions | | 2021/2022 £ millions |
|-------------------------|------------------------------------|-------------------------|
| | Fund manager fees | |
| -0.184 | LaSalle | 0.000 |
| -0.049 | Maple-Brown Abbott | 0.000 |
| -0.043 | Somerset County Council | -0.031 |
| -0.634 | Abrdn | -0.078 |
| -0.558 | Other fund managers | -0.515 |
| -1.468 | | -0.624 |
| | Other expenses | |
| -0.073 | Transaction costs | 0.000 |
| -0.035 | Custody fees | -0.058 |
| -0.108 | | -0.058 |
| | Pooling | |
| -0.991 | Brunel Fees | -0.881 |
| -3.143 | 3rd Party Fund Manager Fees | -4.838 |
| -1.086 | Property unit trust managers' fees | -1.217 |
| -0.164 | Custody fees | -0.645 |
| -0.223 | Other costs | -0.248 |
| -5.607 | | -7.829 |
| -7.183 | | -8.511 |

The "other fund manager" fees identified above is an estimate of fund management fees that are deducted from within investments held by the pension fund but not invoiced to the fund.

No performance related fees were invoiced to the Fund by fund managers.

The pooling category above includes fees directly invoiced by Brunel as well as costs deducted directly from pooled investments provided by Brunel.

Aberdeen Standard have changed their name to Abrdn.

The transaction costs shown above are broken down as follows:

| 2020/2021 | | | | 2021/2022 | |
|-----------------------|---------------------|-------------------------|-----------------------|---------------------|---------------------|
| £ millions | £ millions | | | £ millions | £ millions |
| Broker | | | | Broker | |
| comm- | Taxes and | Manager | Asset Class | comm- | Taxes and |
| issions | Fees | | | issions | Fees |
| Purchase Costs | | | | | |
| 0.002 | 0.002 | Somerset County Council | Passive global equity | 0.000 | 0.000 |
| 0.000 | 0.000 | Abrdn | UK equity | 0.000 | 0.000 |
| 0.000 | 0.000 | Somerset County Council | Passive US equity | 0.000 | 0.000 |
| 0.000 | 0.000 | Jupiter | European equity | 0.000 | 0.000 |
| 0.005 | 0.002 | Maple-Brown Abbott | Far East equity | 0.000 | 0.000 |
| 0.000 | 0.000 | Aberdeen Standard | Bonds | 0.000 | 0.000 |
| 0.000 | 0.000 | Brunel | Property | 0.000 | 0.000 |
| 0.000 | 0.000 | Neuberger Berman | Global private equity | 0.000 | 0.000 |
| 0.000 | 0.000 | TVP | UK venture capital | 0.000 | 0.000 |
| 0.000 | 0.000 | Somerset County Council | Cash | 0.000 | 0.000 |
| <u>0.007</u> | <u>0.004</u> | | | <u>0.000</u> | <u>0.000</u> |
| Sales Costs | | | | | |
| 0.010 | 0.003 | Somerset County Council | Passive global equity | 0.000 | 0.000 |
| 0.000 | 0.000 | Abrdn | UK equity | 0.000 | 0.000 |
| 0.000 | 0.000 | Somerset County Council | Passive US equity | 0.000 | 0.000 |
| 0.000 | 0.000 | Jupiter | European equity | 0.000 | 0.000 |
| 0.023 | 0.026 | Maple-Brown Abbott | Far East equity | 0.000 | 0.000 |
| 0.000 | 0.000 | Aberdeen Standard | Bonds | 0.000 | 0.000 |
| 0.000 | 0.000 | Brunel | Property | 0.000 | 0.000 |
| 0.000 | 0.000 | Neuberger Berman | Global private equity | 0.000 | 0.000 |
| 0.000 | 0.000 | TVP | UK venture capital | 0.000 | 0.000 |
| 0.000 | 0.000 | Somerset County Council | Cash | 0.000 | 0.000 |
| <u>0.033</u> | <u>0.029</u> | | | <u>0.000</u> | <u>0.000</u> |
| <u>0.040</u> | <u>0.033</u> | | | <u>0.000</u> | <u>0.000</u> |
| | <u>0.073</u> | | | | <u>0.000</u> |

In addition to these costs, indirect costs are incurred through bid/offer spread on investment purchases. No attempt has been made to quantify these amounts.

No attempt has been made to estimate transaction costs incurred within pooled funds.

Aberdeen Standard have changed their name to Abrdn.

Note 9: Oversight and governance expenses

| 2020/2021 £ millions | | 2021/2022 £ millions |
|-------------------------|--|-------------------------|
| -0.010 | Committee services costs charged by Somerset CC | -0.010 |
| -0.232 | Investments administration costs charged by Somerset CC | -0.227 |
| -0.242 | | -0.237 |
| -0.142 | Actuary's fees | -0.105 |
| 0.057 | Recharge of Actuary's fees to employers | 0.073 |
| -0.085 | | -0.032 |
| -0.022 | External audit fees | -0.037 |
| 0.000 | Refund of external audit fees | 0.013 |
| 0.000 | Non-audit fees of external auditor | -0.014 |
| 0.000 | Recharge of non-audit fees to employers | 0.000 |
| -0.022 | | -0.038 |
| 0.000 | Internal audit costs charged by South West Audit Partnership | 0.000 |
| -0.078 | Professional services and subscriptions | -0.051 |
| -0.209 | IT systems | -0.197 |
| 0.000 | Performance measurement fees | 0.000 |
| 0.000 | External legal advice | -0.003 |
| -0.022 | Voting advice fees | 0.000 |
| -0.018 | Pooling costs | -0.017 |
| -0.005 | Other expenses | -0.008 |
| -0.681 | | -0.583 |

The pooling costs referred to in this note are costs that are related to pooling but not paid to Brunel or regarding anything that Brunel provides. Typically this is legal and other consulting work regarding pooling.

The external audit fees disclosed in the auditor's formal audit plan to the Fund for the 2021/2022 financial year are £34,596. The discrepancy relates to invoices being received by the Fund after the accounts are closed and not being accrued for in relation to invoices for both the 2020/21 and 2021/22 financial years. Similar discrepancies appear in the 2020/2021 audit plan relating to the 2020/21 fee, shown as £30,121. The £34,596 does not include the fees for IAS assurance work undertaken by Grant Thornton on behalf of employers, which is shown as non-audit fees above.

Note 10: Investment income

| 2020/2021 | | 2021/2022 |
|-------------------|--------------------------|-------------------|
| £ millions | | £ millions |
| 10.106 | Bonds | 2.795 |
| 0.382 | Index linked bonds | 0.050 |
| 0.132 | UK equities | 0.074 |
| 2.062 | Overseas equities | 0.054 |
| 5.753 | Property unit trusts | 12.332 |
| 0.651 | Cash invested internally | 0.293 |
| 0.000 | Private equity | 0.000 |
| 0.059 | Stock lending | 0.003 |
| 19.145 | | 15.601 |

Note 11: Investment assets and liabilities

| 31 March 2021 | | | | 31 March 2022 | | | |
|--------------------------|------------------|------|-------------|---------------|------------------|------|-------------|
| £ millions | £ millions | % | % | £ millions | £ millions | % | % |
| UK equities | | | | | | | |
| 450.502 | | 17.3 | | 489.006 | | 17.2 | |
| 12.994 | | 0.5 | | 13.260 | | 0.5 | |
| | 463.496 | | 17.8 | | 502.266 | | 17.7 |
| Overseas equities | | | | | | | |
| 0.375 | | 0.0 | | 0.000 | | 0.0 | |
| 681.900 | | 26.1 | | 782.616 | | 27.6 | |
| 360.872 | | 13.8 | | 392.475 | | 13.8 | |
| 184.984 | | 7.1 | | 189.091 | | 6.7 | |
| 122.078 | | 4.7 | | 108.096 | | 3.8 | |
| | 1,350.209 | | 51.7 | | 1,472.278 | | 51.9 |
| Bonds | | | | | | | |
| 67.294 | | 2.6 | | 0.000 | | 0.0 | |
| 108.801 | | 4.2 | | 0.000 | | 0.0 | |
| 9.003 | | 0.4 | | 0.000 | | 0.0 | |
| 0.557 | | 0.0 | | 0.000 | | 0.0 | |
| 86.920 | | 3.3 | | 0.000 | | 0.0 | |
| 39.441 | | 1.5 | | 0.000 | | 0.0 | |
| 74.302 | | 2.9 | | 0.000 | | 0.0 | |
| 0.795 | | 0.0 | | 0.000 | | 0.0 | |
| 3.314 | | 0.1 | | 0.000 | | 0.0 | |
| 0.000 | | 0.0 | | 62.263 | | 2.2 | |
| 0.000 | | 0.0 | | 80.882 | | 2.9 | |
| 0.000 | | 0.0 | | 196.828 | | 6.9 | |
| 0.000 | | 0.0 | | 77.723 | | 2.7 | |
| | 390.427 | | 15.0 | | 417.696 | | 14.7 |
| Property | | | | | | | |
| 174.870 | | 6.7 | | 227.892 | | 8.0 | |
| 0.020 | | 0.0 | | 0.000 | | 0.0 | |
| | 174.890 | | 6.7 | | 227.892 | | 8.0 |
| Private equity | | | | | | | |
| 10.399 | | 0.4 | | 10.190 | | 0.4 | |
| 14.982 | | 0.6 | | 8.211 | | 0.3 | |
| 22.313 | | 0.9 | | 20.955 | | 0.7 | |
| 21.711 | | 0.8 | | 33.762 | | 1.2 | |
| 0.574 | | 0.0 | | 10.188 | | 0.4 | |
| 1.640 | | 0.1 | | 1.640 | | 0.1 | |
| 0.840 | | 0.0 | | 0.840 | | 0.0 | |
| | 72.459 | | 2.8 | | 85.786 | | 3.1 |

Table continued on next page

Note 11: Investment assets and liabilities (continued)

| 31 March 2021 | | | | 31 March 2022 | | | |
|------------------------------|--------------------------------|-----|----------------------------|---------------|--------------------------------|-----|----------------------------|
| £ millions | £ millions | % | % | £ millions | £ millions | % | % |
| Derivatives | | | | | | | |
| 0.529 | | 0.0 | | 0.000 | | 0.0 | |
| 0.000 | | 0.0 | | 0.000 | | 0.0 | |
| 0.000 | | 0.0 | | 0.000 | | 0.0 | |
| | 0.529 | | 0.0 | | 0.000 | | 0.0 |
| Cash and others | | | | | | | |
| 156.449 | | 6.0 | | 131.432 | | 4.6 | |
| | 156.449 | | 6.0 | | 131.432 | | 4.6 |
| | <u>2,608.459</u> | | <u>100.0</u> | | <u>2,837.350</u> | | <u>100.0</u> |
| Investment assets | | | | | | | |
| Derivatives | | | | | | | |
| -0.011 | | 0.0 | | 0.000 | | 0.0 | |
| 0.000 | | 0.0 | | 0.000 | | 0.0 | |
| 0.000 | | 0.0 | | 0.000 | | 0.0 | |
| | -0.011 | | 0.0 | | 0.000 | | 0.0 |
| | <u>-0.011</u> | | <u>0.0</u> | | <u>0.000</u> | | <u>0.0</u> |
| | | | | | <u>0.000</u> | | <u>0.0</u> |
| | <u><u>2,608.448</u></u> | | <u><u>100.0</u></u> | | <u><u>2,837.350</u></u> | | <u><u>100.0</u></u> |
| Net investment assets | | | | | | | |
| Made up of | | | | | | | |
| | 2,174.397 | | | | 2,239.989 | | |
| | 434.051 | | | | 597.361 | | |
| | <u><u>2,608.448</u></u> | | | | <u><u>2,837.350</u></u> | | |

In response to the requirements of the investment regulations for LGPS funds to pool investment assets, Brunel Pension Partnership Ltd (BPP Ltd) has been formed to oversee the investment assets for the Avon, Buckinghamshire, Cornwall, Devon, Dorset, Environment Agency, Gloucestershire, Oxfordshire, Somerset, and Wiltshire LGPS funds. Each of the ten funds own an equal share of Brunel Ltd, with share capital invested by each fund of £840,000. The £840,000 investment shown as Brunel within private equity above refers to this value of the shares the fund holds in Brunel Pension Partnership Ltd. (BPP Ltd.). As disclosed in the accounting policies section of these accounts this investment is valued at cost. This value is not the value of assets managed by BPP Ltd, which as at 31 March 2022 was £2,617,060,000. This investment is also disclosed separately from any other investment in note 13, note 16 and note 31 and a written disclosure is made in note 25 with regard to related parties.

Note 12: Analysis of pooled fund investments

| 31 March 2021 £ millions | | 31 March 2022 £ millions |
|-----------------------------|---|-----------------------------|
| | Unit trusts | |
| 128.972 | UK property funds | 166.720 |
| | Unitised insurance policies | |
| 681.900 | Brunel passive global equity fund | 782.616 |
| 12.994 | Standard Life smaller companies fund | 13.260 |
| 0.000 | Brunel passive gilt fund | 62.263 |
| 0.000 | Brunel passive index-linked gilt fund | 80.882 |
| 0.000 | Brunel sterling corporate bond fund | 196.828 |
| 694.894 | | 1,135.849 |
| | Limited liability partnerships | |
| 69.405 | Neuberger Berman private equity funds | 73.118 |
| 0.574 | Brunel private equity funds | 10.188 |
| 1.640 | South West regional venture fund | 1.640 |
| 71.619 | | 84.946 |
| | UK authorised contractual scheme | |
| 450.502 | Brunel UK equity fund | 489.006 |
| 360.872 | Brunel global high alpha equity fund | 392.475 |
| 184.984 | Brunel global smaller companies fund | 189.091 |
| 122.078 | Brunel emerging market equity fund | 108.096 |
| 1,118.436 | | 1,178.668 |
| | Other managed funds | |
| 45.898 | UK property funds | 61.172 |
| 0.020 | Overseas property funds | 0.000 |
| 0.000 | Brunel multi-asset credit funds | 77.723 |
| 45.918 | | 138.895 |
| 2,059.839 | Total | 2,705.078 |

Note 13: Movement in investment assets

| Manager | Asset class | Investment assets as at 1 April £ millions | Change in cash invested internally £ millions | Purchases £ millions | Sales proceeds £ millions | Realised profit or loss £ millions | Unrealised profit or loss £ millions | Investment assets as at 31 March £ millions |
|-------------------------|-----------------------------|---|--|-------------------------|------------------------------|---------------------------------------|---|--|
| 2020/2021 | Total | 2,046.706 | 9.654 | 1,731.892 | -1,724.697 | 105.819 | 439.074 | 2,608.448 |
| Somerset County Council | Global equity | 0.375 | 0.000 | 0.000 | -0.381 | -0.008 | 0.014 | 0.000 |
| Abrdn | UK equity | 12.994 | 0.000 | 0.000 | 0.000 | 0.000 | 0.266 | 13.260 |
| Abrdn | Bonds | 390.427 | 0.000 | 300.590 | -700.685 | 47.445 | -37.777 | 0.000 |
| Abrdn | Derivatives | 0.518 | 0.000 | 347.123 | -347.569 | 0.698 | -0.770 | 0.000 |
| LaSalle / Brunel | Property | 174.890 | 0.000 | 41.031 | -11.999 | -19.383 | 43.353 | 227.892 |
| Neuberger Berman | Global private equity | 69.405 | 0.000 | 1.142 | -15.818 | 2.754 | 15.635 | 73.118 |
| TVP | UK venture capital | 1.640 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 1.640 |
| Brunel | Company | 0.840 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.840 |
| Brunel | UK Equity | 450.502 | 0.000 | 0.000 | 0.000 | 0.000 | 38.504 | 489.006 |
| Brunel | Passive global equity | 681.900 | 0.000 | 0.000 | 0.000 | -0.036 | 100.752 | 782.616 |
| Brunel | Global high alpha equity | 360.872 | 0.000 | 0.000 | 0.000 | 0.000 | 31.603 | 392.475 |
| Brunel | Global smaller co.'s | 184.984 | 0.000 | 0.000 | 0.000 | 0.000 | 4.107 | 189.091 |
| Brunel | Emerging market equity | 122.078 | 0.000 | 0.000 | 0.000 | 0.000 | -13.982 | 108.096 |
| Brunel | UK Government Gilts | 0.000 | 0.000 | 67.444 | 0.000 | -0.004 | -5.177 | 62.263 |
| Brunel | UK Gov't index linked Gilts | 0.000 | 0.000 | 80.872 | 0.000 | -0.004 | 0.014 | 80.882 |
| Brunel | Sterling corporate bonds | 0.000 | 0.000 | 210.024 | 0.000 | 0.000 | -13.196 | 196.828 |
| Brunel | Multi-asset credit | 0.000 | 0.000 | 126.567 | -47.660 | 0.150 | -1.334 | 77.723 |
| Brunel | Global private equity | 0.574 | 0.000 | 8.393 | 0.000 | -0.071 | 1.292 | 10.188 |
| Somerset County Council | Cash | 156.449 | -30.651 | 0.000 | 0.000 | 5.628 | 0.006 | 131.432 |
| 2021/2022 | Total | 2,608.448 | -30.651 | 1,183.186 | -1,124.112 | 37.169 | 163.310 | 2,837.350 |

The £840,000 investment shown as Brunel above refers to the value of the shares the fund holds in Brunel Pension Partnership Ltd. (BPP Ltd.). As disclosed in the accounting policies section of these accounts this investment is valued at cost. This value is not the value of assets managed by BPP Ltd, which as at 31 March 2022 was £2,617,060,000. This investment is also disclosed separately from any other investment in note 11, note 16 and note 31 and a written disclosure is made in note 25 with regard to related parties.

Aberdeen Standard have changed their name to Abrdn.

Note 14: Actuarial present value of promised retirement benefits

The present value of promised retirement benefits is an estimate of the value of the lump sums and pensions that the fund will pay in the future. The estimate has been calculated by the fund's actuary and has been prepared in accordance with International Accounting Standard (IAS) 26. In calculating the disclosed numbers the actuary has adopted methods and assumptions that are consistent with IAS19.

To assess the value of the Fund's liabilities at 31 March 2022, the actuary has rolled forward the value of the Fund's liabilities calculated for the funding valuation as at 31 March 2019

The estimation of the present value of promised retirement benefits is subject to significant variances based on changes to the underlying assumptions. In accordance with IAS 19 the assumptions used to make the calculations are set with reference to market conditions at the net asset statement date. The assumptions used are as follows:

| 31 March 2021 | | 31 March 2022 |
|----------------------|--------------------------------------|----------------------|
| | Financial assumptions | |
| 2.85% | CPI increases | 3.20% |
| 3.85% | Salary increases | 4.20% |
| 2.85% | Pension increases | 3.20% |
| 2.00% | Discount Rate | 2.60% |
| | Life expectancy (from age 65) | |
| 23.1 | Retiring today - Males | 23.1 |
| 24.6 | - Females | 24.7 |
| 24.4 | Retiring in 20 years - Males | 24.4 |
| 26.0 | - Females | 26.1 |

The Retail Prices Index (RPI) increase assumption is set using a Single Equivalent Inflation Rate (SEIR) approach. The single inflation rate derived is that which gives the same net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve, as applying the BoE implied inflation curve. The Merrill Lynch AA rated corporate bond yield spot curve is assumed to be flat beyond the 30-year point and the BoE implied inflation spot curve is assumed to be flat beyond the 40-year point. This is consistent with the approach used at the last accounting date.

It is expected that RPI will be on average 1.0% p.a. lower than it would have otherwise been from 2030 as a result of the proposed alignment of RPI to CPIH (and CPI) from that date. We have therefore assumed that the annual increase in CPI inflation will be 1.0% p.a. lower than the market implied increases in RPI for each year prior to 2030, and will be in line with RPI inflation thereafter. This results in an assumed gap between the two inflation measures of between 0.25% p.a. and 0.85% p.a. depending on the term of the liabilities (for terms ranging from 30 years down to 5 years).

Salaries are assumed to increase at 1.0% p.a. above CPI. This is consistent with the approach at the previous accounting date.

An estimate of the Fund's future cashflows is made using notional cashflows based on the estimated duration of 22 years. These estimated cashflows are then used to derive a Single Equivalent Discount Rate (SEDR). The discount rate derived is such that the net present value of the notional cashflows, discounted at this single rate, equates to the net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve (where the spot curve is assumed to be flat beyond the 30-year point). This is consistent with the approach used at the last accounting date.

A sensitivity analysis of the present value of promised retirement benefits to changes in these assumptions is provided in the table below.

| | £ millions | £ millions |
|---|-----------------|-----------------|
| Actuarial present value of promised retirement benefits | 4,872.760 | |
| Sensitivity to | +0.1% | -0.1% |
| Discount rate | 4,769.674 | 4,978.178 |
| Salary increase | 4,880.955 | 4,864.639 |
| Pension increases and deferred revaluation | 4,969.261 | 4,778.289 |
| Sensitivity to | + 1 year | - 1 year |
| Life expectancy assumptions | 5,077.664 | 4,676.374 |

The table below shows a breakdown of the change in the present value of promised retirement benefits that occurred during the year.

| 2020/2021 | | 2021/2022 |
|-------------------|---|-------------------|
| £ millions | | £ millions |
| 125.726 | Current service cost | 210.913 |
| 85.430 | Interest cost | 97.832 |
| 1,208.548 | Change in financial assumptions | -301.406 |
| -38.980 | Change in demographic assumptions | 0.000 |
| -47.028 | Experience loss/(gain) on defined benefit obligations | 10.424 |
| 0.000 | Liabilities assumed/(extinguished) on settlements | -5.407 |
| -95.258 | Estimated benefits paid net of transfers in | -97.257 |
| 0.472 | Past service costs, including curtailments | 0.923 |
| 22.599 | Contributions by scheme members | 24.102 |
| 1,261.509 | | -59.876 |

Note 15: Other investment balances

| 31 March 2021 £ millions | | 31 March 2022 £ millions |
|---|--|---|
| Assets | | |
| 4.037 | - Accrued income | 0.620 |
| 8.316 | - Payments due on investments sold | 0.000 |
| 1.063 | - Cash collateral provided | 0.000 |
| <u>13.416</u> | | <u>0.620</u> |
| Liabilities | | |
| -9.479 | - Payments not made on purchases and losses due on sales | 0.000 |
| 0.000 | - Cash collateral held | 0.000 |
| <u>-9.479</u> | | <u>0.000</u> |
| <u>3.937</u> | | <u>0.620</u> |

Note 16: Management structure

| 31 March 2021 | | Manager | Asset class | 31 March 2022 | |
|------------------|------------|------------------------------|-----------------------------|------------------|------------|
| £ millions | % | | | £ millions | % |
| 0.375 | 0 | Somerset County Council | Passive global equity | 0.000 | 0 |
| 12.994 | 0 | Abrdn | UK equity | 13.260 | 0 |
| 390.945 | 15 | Abrdn | Bonds | 0.000 | 0 |
| 0.020 | 0 | LaSalle | Property | 0.000 | 0 |
| 69.405 | 3 | Neuberger Berman | Global private equity | 73.118 | 2 |
| 1.640 | 0 | Technology Venture Partners | UK venture capital | 1.640 | 0 |
| 0.840 | 0 | Brunel | UK venture capital | 0.840 | 0 |
| 156.449 | 6 | Somerset County Council | Cash | 131.432 | 5 |
| 632.668 | 24 | Not-pooled sub total | | 220.290 | 7 |
| 450.502 | 17 | Brunel | UK Equity | 489.006 | 17 |
| 681.900 | 26 | Brunel | Passive global equity | 782.616 | 28 |
| 360.872 | 14 | Brunel | Global high alpha equity | 392.475 | 14 |
| 184.984 | 7 | Brunel | Global smaller companies | 189.091 | 7 |
| 122.078 | 5 | Brunel | Emerging market equity | 108.096 | 4 |
| 0.000 | 0 | Brunel | UK Government Gilts | 62.263 | 2 |
| 0.000 | 0 | Brunel | UK Gov't index linked Gilts | 80.882 | 3 |
| 0.000 | 0 | Brunel | Sterling corporate bonds | 196.828 | 7 |
| 0.000 | 0 | Brunel | Multi-asset credit | 77.723 | 3 |
| 174.870 | 7 | Brunel | Property | 227.892 | 8 |
| 0.574 | 0 | Brunel | Global private equity | 10.188 | 0 |
| 1,975.780 | 76 | Pooled sub total | | 2,617.060 | 93 |
| 2,608.448 | 100 | Net investment assets | | 2,837.350 | 100 |

The £840,000 investment shown as Brunel above refers to the value of the shares the fund holds in Brunel Pension Partnership Ltd. (BPP Ltd.). As disclosed in the accounting policies section of these accounts this investment is valued at cost. This value is not the value of assets managed by BPP Ltd, which as at 31 March 2022 was £2,617,060,000. This investment is also disclosed separately from any other investment in note 11, note 13 and note 31 and a written disclosure is made in note 25 with regard to related parties.

Aberdeen Standard have changed their name to Abrdn.

Note 17: Classification of financial instruments

Page 242

| 31 March 2021 £ millions | | | 31 March 2022 £ millions | | |
|---|--------------------------|-------------------------------|----------------------------------|--------------------------|-------------------------------|
| Fair value through profit & loss | Assets at amortised cost | Liabilities at amortised cost | Fair value through profit & loss | Assets at amortised cost | Liabilities at amortised cost |
| Investment assets and liabilities | | | | | |
| 2,608.459 | | | 2,837.350 | | |
| -0.011 | | | 0.000 | | |
| | 3.937 | | | 0.620 | |
| Current assets | | | | | |
| | 4.432 | | | 4.078 | |
| | 0.501 | | | 0.500 | |
| | 3.755 | | | 4.713 | |
| Current liabilities | | | | | |
| | | 0.000 | | | 0.000 |
| | | 0.000 | | | 0.000 |
| | | -2.001 | | | -2.165 |
| 2,608.448 | 12.625 | -2.001 | 2,837.350 | 9.911 | -2.165 |
| Net assets of the scheme available to fund benefits at end of year | | | | | |
| 2,608.448 | 12.625 | -2.001 | 2,837.350 | 9.911 | -2.165 |

Note 18: Net gains and losses on financial instruments

| 2020/2021 | | 2021/2022 |
|-----------------------|---|-----------------------|
| £ millions | | £ millions |
| 544.893 | Fair value through profit and loss | 200.479 |
| 0.000 | Amortised cost - realised gains (losses) on derecognition | 0.000 |
| 0.000 | Amortised cost - unrealised gains (losses) | 0.000 |
| <u>544.893</u> | | <u>200.479</u> |

Note 19: Major holdings

| 31 March 2021 | | | Description | 31 March 2022 | | % of net investments |
|---------------|------------|---------------------------------------|--|---------------|------------|----------------------|
| Rank | £ millions | Stock | | Rank | £ millions | |
| 1 | 681.900 | Brunel passive global equity fund | Pooled fund of developed market equities | 1 | 782.616 | 27.6 |
| 2 | 450.502 | Brunel UK equity fund | Pooled fund of UK equities | 2 | 489.006 | 17.2 |
| 3 | 360.872 | Brunel global high alpha equity fund | Pooled fund of developed market equities | 3 | 392.475 | 13.8 |
| - | 0.000 | Brunel sterling corporate bond fund | Pooled fund of corporate bonds | 4 | 196.828 | 6.9 |
| 4 | 184.984 | Brunel global smaller companies fund | Pooled fund of developed market equities | 5 | 189.091 | 6.7 |
| 5 | 122.078 | Brunel emerging market equity fund | Pooled fund of emerging market equities | 6 | 108.096 | 3.8 |
| - | 0.000 | Brunel passive index-linked gilt fund | Pooled fund of UK Gov't index-linked gilts | 7 | 80.882 | 2.9 |
| - | 0.000 | Brunel passive gilt fund | Pooled fund of UK Gov't gilts | 8 | 62.263 | 2.2 |
| - | 0.000 | Brunel Neuberger Berman MAC fund | Pooled fund of multi-asset credit | 9 | 46.421 | 1.6 |
| 7 | 21.711 | Neuberger Berman Crossroads XXII fund | Private equity fund | 10 | 33.762 | 1.2 |
| 10 | 18.762 | IPIF | Pooled fund of UK property | 11 | 26.693 | 0.9 |
| 9 | 20.027 | Nuveen UK Property Fund | Pooled fund of UK property | 12 | 24.183 | 0.9 |
| 8 | 20.464 | CBRE UK Property Fund | Pooled fund of UK property | 13 | 23.993 | 0.8 |
| 25 | 4.616 | Clearbell UK Property Fund | Pooled fund of UK property | 14 | 22.708 | 0.8 |
| 6 | 22.313 | Neuberger Berman Crossroads XXI fund | Private equity fund | 15 | 20.955 | 0.7 |
| 11 | 17.592 | Blackrock UK PUT | Pooled fund of UK property | 16 | 20.739 | 0.7 |
| 13 | 15.057 | AEW Real Return Fund | Pooled fund of UK property | 17 | 19.564 | 0.7 |
| 15 | 14.935 | Octopus Healthcare fund | Pooled fund of UK property | 18 | 18.815 | 0.7 |
| 20 | 8.354 | Hermes Property fund | Pooled fund of UK property | 19 | 18.734 | 0.7 |
| 12 | 15.946 | Nuveen Central London Office fund | Pooled fund of UK property | 20 | 16.464 | 0.6 |

The largest five holdings of the fund each make up more than 5% of the net investment assets. The percentage of net investment assets that each holding makes up is shown in the final column of the table above.

Note 20: Derivatives

Investment in derivative instruments may only be made if they contribute to a reduction of risk or they facilitate more efficient portfolio management.

During the year the fund used forward foreign exchange contracts, bond futures, interest rate swaps and inflation rate swaps.

The year end value of derivatives is as follows:

| 31 March 2021 £ millions | | | | 31 March 2022 £ millions | | |
|---|---------------|--------------|------------------------|-----------------------------|--------------|--------------|
| Asset | Liability | Net value | | Asset | Liability | Net value |
| Forward foreign-exchange contracts | | | | | | |
| 0.529 | -0.011 | 0.518 | Abrdn fixed Interest | 0.000 | 0.000 | 0.000 |
| 0.529 | -0.011 | 0.518 | | 0.000 | 0.000 | 0.000 |
| Government bond futures | | | | | | |
| 0.000 | 0.000 | 0.000 | UK gilt future | 0.000 | 0.000 | 0.000 |
| 0.000 | 0.000 | 0.000 | European bond future | 0.000 | 0.000 | 0.000 |
| 0.000 | 0.000 | 0.000 | Australian bond future | 0.000 | 0.000 | 0.000 |
| 0.000 | 0.000 | 0.000 | Canadian bond future | 0.000 | 0.000 | 0.000 |
| 0.000 | 0.000 | 0.000 | US treasury future | 0.000 | 0.000 | 0.000 |
| 0.000 | 0.000 | 0.000 | | 0.000 | 0.000 | 0.000 |
| Swaps | | | | | | |
| 0.000 | 0.000 | 0.000 | Inflation swaps | 0.000 | 0.000 | 0.000 |
| 0.000 | 0.000 | 0.000 | Interest rate swaps | 0.000 | 0.000 | 0.000 |
| 0.000 | 0.000 | 0.000 | | 0.000 | 0.000 | 0.000 |
| 0.529 | -0.011 | 0.518 | | 0.000 | 0.000 | 0.000 |

Aberdeen Standard have changed their name to Abrdn. Following the movement of the bond portfolio from Abrdn to Brunel the Fund no longer has any direct exposure to derivatives.

Abrdn used to hold forward foreign exchange contracts to hedge the foreign exchange risk of holding investments that are not valued in sterling in their fixed income portfolio. The non-sterling bonds are either government bonds or corporate bonds. Typically Abrdn chose to hedge 100% of their currency risk.

The fair value of these contracts at year end is based on market foreign exchange rates at the year end date. All forward foreign exchange contracts are over the counter trades.

The bond futures were used by Abrdn to gain exposure to overseas government bonds with lower trading costs and better liquidity than trading the underlying bonds themselves. There are significant restrictions in how Abrdn may use bond futures to ensure they do not increase the overall risk of the portfolio they are managing. The bond futures are exchange traded contracts.

Swaps were used by Abrdn to gain exposure to various interest rates and inflation exposures with lower trading costs and better liquidity than trading bonds with similar exposures. There are significant restrictions in how Abrdn may use swaps to ensure they do not increase the overall risk of the portfolio they are managing. The swaps are over the counter trades.

The gross exposure values (the value of the assets bought and sold within the derivatives contracts) are shown in the following table.

| 31 March 2021 £ millions | | | | 31 March 2022 £ millions | | |
|---|--------------------------------|--------------|------------------------|-----------------------------|--------------------------------|--------------|
| Asset exposure value | Liability exposure value | Net value | | Asset exposure value | Liability exposure value | Net value |
| Forward foreign-exchange contracts | | | | | | |
| 57.552 | -57.034 | 0.518 | Abrdn fixed Interest | 0.000 | 0.000 | 0.000 |
| 57.552 | -57.034 | 0.518 | | 0.000 | 0.000 | 0.000 |
| Government bond futures | | | | | | |
| 13.595 | -13.595 | 0.000 | UK gilt future | 0.000 | 0.000 | 0.000 |
| 5.051 | -5.051 | 0.000 | European bond future | 0.000 | 0.000 | 0.000 |
| 6.876 | -6.876 | 0.000 | Australian bond future | 0.000 | 0.000 | 0.000 |
| 0.000 | 0.000 | 0.000 | Canadian bond future | 0.000 | 0.000 | 0.000 |
| 6.934 | -6.934 | 0.000 | US treasury future | 0.000 | 0.000 | 0.000 |
| 32.456 | -32.456 | 0.000 | | 0.000 | 0.000 | 0.000 |
| Swaps | | | | | | |
| 0.095 | -0.095 | 0.000 | Inflation swaps | 0.000 | 0.000 | 0.000 |
| 0.734 | -0.734 | 0.000 | Interest rate swaps | 0.000 | 0.000 | 0.000 |
| 0.829 | -0.829 | 0.000 | | 0.000 | 0.000 | 0.000 |
| 90.837 | -90.319 | 0.518 | | 0.000 | 0.000 | 0.000 |

The exposure currencies of the forward foreign exchange contracts held by Abrdn are shown in the table below.

| 31 March 2021 £ millions | | | | 31 March 2022 £ millions | | |
|-----------------------------|--------------------------|--------------|------------------|-----------------------------|--------------------------|--------------|
| Asset exposure value | Liability exposure value | Net value | | Asset exposure value | Liability exposure value | Net value |
| Abrdn fixed Interest | | | | | | |
| 57.288 | -0.264 | 57.024 | GB Pound | 0.000 | 0.000 | 0.000 |
| 0.000 | -3.215 | -3.215 | Australia Dollar | 0.000 | 0.000 | 0.000 |
| 0.264 | -43.981 | -43.717 | Euro | 0.000 | 0.000 | 0.000 |
| 0.000 | -9.574 | -9.574 | US Dollar | 0.000 | 0.000 | 0.000 |
| 57.552 | -57.034 | 0.518 | | 0.000 | 0.000 | 0.000 |

Note 21: Capital commitments (investments)

As at 31 March 2022 the fund had outstanding capital commitments (investments) totalling £74.842m (31 March 2021 - £71.287m). These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the pooled private equity and pooled property fund elements of the investment portfolio. The amounts 'called' by these funds are irregular in both size and timing from the date of the original commitment due to the nature of the investments.

| 31 March 2021 £ millions | | | | 31 March 2022 £ millions | |
|-----------------------------|------------------------|---------------------------|--|-----------------------------|------------------------|
| Total commitment | Outstanding commitment | | | Total commitment | Outstanding commitment |
| 83.351 | 27.651 | Neuberger Berman PE funds | | 87.343 | 27.760 |
| 68.500 | 24.490 | Property funds | | 21.000 | 13.425 |
| 19.523 | 19.146 | Brunel PE funds | | 42.423 | 33.657 |
| 171.374 | 71.287 | | | 150.766 | 74.842 |

Note 22: Stock lending

Following the transition of assets to Brunel the Fund no longer directly undertakes stock lending. Stock lending is permitted by some of the collective investment funds managed by Brunel that we invest in.

| 31 March 2021 £ millions | | 31 March 2022 £ millions |
|-----------------------------|---|-----------------------------|
| 33.907 | Value of stock on loan | 0.000 |
| 35.301 | Value of collateral held against loaned stock | 0.000 |

| 31 March 2021 % | | 31 March 2022 % |
|--------------------|------------------------------------|--------------------|
| | Form of collateral provided | |
| 46.2 | UK Government debt | 0.0 |
| 3.9 | US Government debt | 0.0 |
| 49.9 | Euro area Governments debt | 0.0 |
| 0.0 | UK equities | 0.0 |
| 0.0 | Overseas equities | 0.0 |
| 0.0 | Other | 0.0 |
| 100.0 | | 0.0 |

Note 23: Membership statistics

| As at 31 March | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Active scheme members | 22,649 | 21,550 | 21,151 | 20,485 | 20,877 | 20,605 | 21,378 |
| Pensioners | | | | | | | |
| Current (in payment) | 14,779 | 15,421 | 16,322 | 17,326 | 18,289 | 18,921 | 19,690 |
| Deferred (future liability) | 20,452 | 22,268 | 25,119 | 26,741 | 26,449 | 26,543 | 26,906 |
| Undecided leavers | 2,507 | 3,778 | 2,617 | 2,337 | 1,808 | 1,838 | 1,586 |
| Total (active plus pensioners) | 60,387 | 63,017 | 65,209 | 66,889 | 67,423 | 67,907 | 69,560 |
| Active members for each current pensioner | 1.53 | 1.40 | 1.30 | 1.18 | 1.14 | 1.09 | 1.09 |

Note 24: Additional voluntary contributions

During the year some members of the fund paid additional voluntary contributions (AVCs) to Utmost Life and Pensions (formally Equitable Life) and Prudential to buy extra pension benefits when they retire. The pension fund accounts, in accordance with regulation 5 (2)(C) of the Pension Scheme (Management and Investment of Funds) Regulations 1998 do not include AVC transactions. The contributions for the year and the outstanding value of assets invested via AVCs at 31 March are shown in the following table.

| 31 March 2021 £ millions | 31 March 2022 £ millions |
|--|---|
| Value of additional voluntary contributions | |
| 4.472 Prudential | 4.238 |
| 0.201 Utmost (formally Equitable Life) | 0.200 |
| <hr/> 4.673 | <hr/> 4.438 |

| 2020/2021 £ millions | 2021/2022 £ millions |
|--|---------------------------------------|
| Additional voluntary contributions paid during the year | |
| 0.468 Prudential | 0.511 |
| 0.000 Utmost (formally Equitable Life) | 0.000 |
| <hr/> 0.468 | <hr/> 0.511 |

Note 25: Related parties

Committee members Gordon Bryant and Paul Butler were active members of the scheme during the year and Committee member Sarah Payne was a deferred member of the scheme during the year.

Pension Board members Nigel Behan and Rachel Ellins were active members of the scheme during the year. Pension Board members Antony White and Roderick Bryant were deferred members of the scheme during the year.

Via collective investment funds the fund holds shares in a number of companies that Somerset County Council and the other member bodies have commercial dealings with. Decisions about the suitability of companies for the fund to invest in are taken the fund managers that Brunel employ within the pooled funds we invest in without referring to the county council, its officers or other member bodies.

Payments made to Somerset County Council by the fund for administration and related services are disclosed in notes 7, 8 and 9.

Brunel Pension Partnership Ltd (Company number 10429110)

Brunel Pensions Partnership Ltd (BPP Ltd) was formed on the 14th October 2016 and oversees the investment of pension fund assets for Avon, Buckinghamshire, Cornwall, Devon, Dorset, Environment Agency, Gloucestershire, Oxfordshire, Somerset, and Wiltshire Funds.

Each of the 10 local authorities, including Somerset County Council own 10% of BPP Ltd.

The fund paid BPP Ltd £881,000 in fees for services in the 2021-2022 financial year as disclosed in note 8.

During the year the fund did not add to the £840,000 paid for its shares in BPP Ltd during the 2017-2018 financial year. These accounts show this investment valued at cost and is disclosed separately from any other investment in note 11, note 13, note 16 and note 31.

No other related party transactions other than normal contributions, benefits and transfers occurred during the year. In note 4 we analyse the total contributions we were due to receive and benefits the fund paid for scheduled and admitted bodies.

Note 26: Remuneration

No staff are directly employed by Somerset County Council Pension Fund. All officers who undertake work on behalf of the fund are employed by Somerset County Council and then costs, including pay where appropriate, are charged to the fund. The total cost of these charges is shown in notes 7, 8 and 9 of these accounts.

The total actual salary and benefits paid for the financial year ended 31 March 2022 of any officer who undertake work for the fund and receives salary of greater than £60,000 is shown in the table below. This represents their full salary and benefits from Somerset County Council and does not represent the costs of the work this officer undertakes for the pension fund.

Page 252

| Year to 31 March 2022 | | | | | | | |
|-------------------------------------|---|---|-----------------------|---|---|---|--|
| Post title | Salary (including fees and allowances) £ | Compensation for loss of office £ | Benefits in kind £ | Total wages and benefits but not including pensions contributions 2021/22 £ | Employer's pension contributions £ | Total wages and benefits including pensions contributions 2021/22 £ | |
| Director of Finance and Performance | 123,300 | - | - | 123,300 | 22,300 | 145,600 | |

For comparison purposes the equivalent disclosure for the financial year ended 31 March 2021 is shown in the table below.

Year to 31 March 2021

| Post title | Salary (including fees and allowances) £ | Compensation for loss of office £ | Benefits in kind £ | Total wages and benefits but not including pensions contributions 2020/21 £ | Employer's pension contributions £ | Total wages and benefits including pensions contributions 2020/21 £ |
|-------------------------------------|---|--|-------------------------------|--|---|--|
| Director of Finance and Performance | 119,000 | - | - | 119,000 | 21,500 | 140,500 |

Note 27: Investment Strategy Statement

We have prepared an Investment Strategy Statement, which explains the strategies and policies that we use in the administration of the pension fund's investments. The full statement is published in the Pension Fund Annual Report and Financial Statement and is also available on the County Council website.

Note 28: Contingent liabilities

There were no contingent liabilities as at 31 March 2022.

Note 29: Post balance sheet events

There were no post balance sheet events as at 30 June 2022.

Note 30: Nature and extent of risks arising from financial instruments

As a result of the adoption of IFRS the fund is required to make disclosures of the risks arising from holding Financial Instruments. For the purpose of this disclosure, financial instruments means all of the fund's investment assets and investment liabilities as shown in note 11 of these accounts, the approximation of the fair value of the net of these assets and liabilities at 31 March 2022 being £2,837m.

The main risks from the fund's holding of financial instruments are market risk, credit risk and liquidity risk. Market risk includes price risk, interest rate risk and currency risk.

The fund's assets are managed by a mixture of officers and external fund managers as described in note 16 of these accounts. A management agreement is put in place with each external fund manager which clearly states the type of investments they are allowed to make for the fund, asset allocation ranges and any further restrictions we believe are necessary.

To make investments as secure as they can be, where possible, external investments are maintained under the control of a safe custodian. Only cash holdings and a small number of pooled funds stay under the control of officers.

Because the fund adopts a long term investment strategy, the high level risks described below will not alter significantly during the year unless there are significant strategic or tactical changes in the portfolio.

Market Risk

Market risk represents the risk that the fair value of a financial instrument will fluctuate because of changes in the market prices of assets or currencies where the assets are priced in currencies other than British pounds.

The fund is exposed to market risk on all of its investment assets with the exception of the cash holdings in British pounds. The aim of the investment strategy is to manage and control market risk within acceptable parameters, while optimising the return from the investment portfolio over the long term.

The fund holds a diversified portfolio of different assets, which are managed by a variety of fund managers which have a variety of investment styles. This diversification is the most effective way of managing market risk.

The sensitivity of the fund's investments to changes in market prices have been analysed using the volatility of returns experienced by asset classes. The volatility data used is broadly consistent with a one-standard deviation movement. The volatility is measured by the (annualised) estimated standard deviation of the returns of the assets relative to the liability returns. Such a measure is appropriate for measuring "typical" variations in the relative values of the assets and liabilities over short time periods. It is not appropriate for assessing longer term strategic issues.

Movements in market prices would have increased or decreased the investment assets valued at 31 March 2022 by the amounts shown below.

| Asset class | Value of Assets £ millions | Volatility | Increase in Assets £ millions | Decrease in Assets £ millions |
|------------------------------|---------------------------------------|-------------------|--|--|
| UK equities | 502.266 | 17.90% | 89.906 | -89.906 |
| Overseas equities | 1472.278 | 15.30% | 225.259 | -225.259 |
| UK bonds | 259.091 | 7.70% | 19.950 | -19.950 |
| Overseas bonds | 77.723 | 13.20% | 10.259 | -10.259 |
| UK index-linked bonds | 80.882 | 7.20% | 5.824 | -5.824 |
| Property | 227.892 | 6.20% | 14.129 | -14.129 |
| Private equity* | 85.786 | 15.30% | 13.125 | -13.125 |
| Cash | 131.432 | 0.00% | 0.000 | 0.000 |
| Net investment assets | <u>2,837.350</u> | | <u>378.452</u> | <u>-378.452</u> |

* Includes level 3 assets, further details can be found in note 31 of these accounts.

Credit Risk

Credit risk represents the risk that the counterparty to a financial instrument will fail to meet an obligation and cause the fund to incur a financial loss. This is often referred to as counterparty risk.

The fund is subject to credit risk within its general debtors although none of these would represent a material risk to the fund.

The fund has credit risk to each of its employer bodies in that they could become insolvent and default on a pension deficit owed to the fund. The majority of the employers in the fund are statutory bodies backed to a greater or lesser extent by the UK government. For the admitted bodies the credit risk is mitigated and managed by the holding of guarantee bonds or having their deficit guaranteed by one of the statutory bodies within the fund.

Bankruptcy or insolvency of the custodian may affect the fund's access to its assets. However, all assets held by a custodian are ring-fenced as "client assets" and therefore cannot be claimed by creditors of the custodian. The fund manages its risk by monitoring the credit quality and financial position of custodians.

A source of credit risk is the cash balances held to meet operational requirements or by the managers at their discretion and cash deposits with various institutions. Internally held cash is managed on the fund's behalf by the Council's Treasury Management Team in line with the fund's Counterparty Policy which sets out the permitted counterparties and limits. The exposure within the cash management part of the portfolio to a single entity is limited to £10m and all counterparties must be rated at least "A-" or higher by the three major rating agencies. In this context the fund's cash balances (including the cash held at bank or net of bank overdraft) of £131.4m is subject to credit risk.

Forward foreign exchange contracts are subject to credit risk in relation to the counterparties of the contracts, which are primarily banks. The maximum credit exposure on foreign currency contracts is the full amount of the contractual settlement should the counterparty fail to meet its obligations to the fund when it falls due. The fair value and full exposure levels of the forward foreign exchange contracts held are provided in note 20 of these accounts.

It is arguable that the fund has significant exposure to credit risk within its bond holdings, the reality is that as the perception of the credit quality of the bond issuer varies through time the market price of the bond varies accordingly, this means that the market risk of these holdings effectively encompasses the counterparty risk.

Liquidity risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due by not having available cash. The fund mitigates this risk by monitoring and projecting its cash flow to enable it to have cash resources as they are required and maintains a cash balance to meet working requirements.

A substantial portion of the fund's investments consist of cash and readily realisable securities. This gives the fund access to in excess of £130m of assets which could be realistically liquidated into cash in less than a week. The majority of the Brunel provided pooled funds provide weekly dealing, providing access to further liquidity should it be required.

The main liability of the fund is the benefits payable, which fall due over a long period and the investment strategy reflects the long term nature of these liabilities. The estimated present value of these obligations is shown on the net asset statement of these accounts and the value of these benefits that fell due in the past financial year is shown on the fund account of these accounts.

The forward foreign exchange contracts held by the fund do give rise to a liquidity risk as they must be settled at a prescribed date agreed at the time of placing the contract. The exact size of this liability varies in line with foreign exchange prices on an on-going basis. The furthest date at which some of these contracts expire is never more than 6 months and the cash flows involved are regularly monitored to ensure we can meet these liabilities as they fall due. The fair value and full

exposure levels of the forward foreign exchange contracts held are provided in note 20 of these accounts.

Note 31: Fair value hierarchy

The fund measures fair values using the following hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Unadjusted quoted prices in an active market for identical assets or liabilities that the fund has the ability to access at the measurement date.
- Level 2: Inputs other than quoted prices under Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Unobservable inputs for the assets or liability used to measure fair value that rely on the fund’s own assumptions concerning the assumptions that market participants would use in pricing an asset or liability.

The basis for the valuation of each class of investment asset is set out below.

| Description of Asset | Fair Value Hierarchy | Basis of Valuation | Observable and unobservable inputs | Key sensitivities affecting the valuation provided |
|--|-----------------------------|---|---|---|
| Market quoted equities and bonds | Level 1 | Published closing bid prices ruling at year end | Not required | Not required |
| Exchange traded futures and forward foreign exchange contracts | Level 1 | Published exchange prices at the year end | Not required | Not required |

Table continued on next page

| Description of Asset | Fair Value Hierarchy | Basis of Valuation | Observable and unobservable inputs | Key sensitivities affecting the valuation provided |
|---|-----------------------------|--|--|--|
| Pooled equity funds | Level 2 | Published single price ruling at year end | Quoted prices of underlying holdings of the assets held within the pooled fund | Not required |
| Brunel pooled funds | Level 2 | Closing bid price where bid and offer prices are available Closing single price where single price available | Quoted prices of underlying holdings of the assets held within the pooled fund | Not required |
| Pooled property funds | Level 2 | Closing bid price where bid and offer prices are available Closing single price where single price available | Prices of the underlying property assets assessed by an independent valuer. | Not required |
| Private equity limited liability partnerships | Level 3 | Valued using a number of different market and income valuation methods as well as comparable market transaction prices | Market transactions, market outlook, cash flow projections, last financings and multiple projections | Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts |
| Unquoted equity | Level 3 | Brunel share capital is valued at book cost | Earnings and revenue multiples, discount for lack of marketability, control premium | Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts |

The table below analyses the fund's investment assets at 31 March 2022 into the 3 levels of the fair value hierarchy.

| Asset Class | Level 1 £ millions | Level 2 £ millions | Level 3 £ millions | Total £ millions |
|------------------------------|-------------------------------|-------------------------------|-------------------------------|-----------------------------|
| UK equities | | 13.260 | | 13.260 |
| Overseas equities | | | | 0.000 |
| Brunel pooled equity funds | | 1,961.284 | | 1,961.284 |
| Bonds | | | | 0.000 |
| Brunel pooled bond funds | | 417.696 | | 417.696 |
| Property funds | | 227.892 | | 227.892 |
| Private Equity funds | | | 85.786 | 85.786 |
| Derivatives | | | | 0.000 |
| Cash | 131.432 | | | 131.432 |
| Net investment assets | <u>131.432</u> | <u>2,620.132</u> | <u>85.786</u> | <u>2,837.350</u> |

For comparison purposes the equivalent disclosure for the financial year ended 31 March 2021 is shown in the table below.

| Asset Class | Level 1 £ millions | Level 2 £ millions | Level 3 £ millions | Total £ millions |
|------------------------------|-------------------------------|-------------------------------|-------------------------------|-----------------------------|
| UK equities | | 12.994 | | 12.994 |
| Overseas equities | 0.375 | | | 0.375 |
| Brunel pooled equity funds | | 1,800.336 | | 1,800.336 |
| Bonds | 390.427 | | | 390.427 |
| Brunel pooled bond funds | | | | 0.000 |
| Property funds | | 174.890 | | 174.890 |
| Private Equity funds | | | 72.459 | 72.459 |
| Derivatives | 0.518 | | | 0.518 |
| Cash | 156.449 | | | 156.449 |
| Net investment assets | <u>547.769</u> | <u>1,988.220</u> | <u>72.459</u> | <u>2,608.448</u> |

There have been no transfers of assets between levels within the fair value hierarchy during the financial year ended 31 March 2022.

The following table shows a reconciliation of the movement in level 3 investments during the financial year ended 31 March 2022.

Page 262

| Asset class | Fair Value as at 31 March 2021 £ millions | Transfers into Level 3 £ millions | Transfers out of Level 3 £ millions | Purchases £ millions | Sales proceeds £ millions | Realised profit or loss £ millions | Unrealised profit or loss £ millions | Fair Value as at 31 March 2022 £ millions |
|-----------------------|--|--|--|---------------------------------|--|---|---|--|
| Global private equity | 69.979 | 0.000 | 0.000 | 9.535 | -15.818 | 2.683 | 16.927 | 83.306 |
| UK venture capital | 1.640 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 1.640 |
| Brunel | 0.840 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.840 |
| Total | 72.459 | 0.000 | 0.000 | 9.535 | -15.818 | 2.683 | 16.927 | 85.786 |

The £840,000 investment shown as Brunel above refers to the value of the shares the fund holds in Brunel Pension Partnership Ltd. (BPP Ltd.). As disclosed in the accounting policies section of these accounts this investment is valued at cost. This value is not the value of assets managed by BPP Ltd, which as at 31 March 2022 was £2,617,060,000. This investment is also disclosed separately from any other investment in note 11, note 13 and note 16 and a written disclosure is made in note 25 with regard to related parties.

Note 32: Accounting standards that have been issued but have not yet been adopted

Under IFRS the fund must disclose what consideration it has given to accounting standards that have not been adopted. The Pension Fund has yet to adopt the following accounting standards:

Annual Improvements to IFRS Standards 2018–2020 (Programme notes 4).

The annual IFRS improvement programme notes 4 changed standards:

- IFRS 1 (First-time adoption) – amendment relates to foreign operations of acquired subsidiaries transitioning to IFRS
- IAS 37 (Onerous contracts) – clarifies the intention of the standard
- IFRS 16 (Leases) – amendment removes a misleading example that is not referenced in the Code material
- IAS 41 (Agriculture) – amendment removes the requirement in paragraph 22 of IAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique

Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).

These amendments prohibit an entity from deducting from the cost of property, plant and equipment amounts received from selling items produced while the entity is preparing the asset for its intended use.

We do not expect any of the amendments above, to have a material impact on our accounts when they are applied prospectively from 1st April 2022.



Jason Vaughan
Director of Finance and Governance
30 June 2022

Glossary of terms

This section explains complicated terms that we have used throughout this document.

Accruals

An amount shown in our accounts to cover money the Council owes, or money owed to us, in the financial year, but which we will not actually pay or receive until the following year (See also Creditors and Debtors).

Actuarial gains or losses

The actuarial gains or losses to the pension fund are made up of:

- actual gains or losses to the value of the fund's investments.
- changes to the number, age and sex of staff that contribute to the pension fund; and
- changes to the assumptions about the growth of investments and the liabilities of the scheme.

Admitted organisations

Organisations that take part in the Local Government Pension Scheme with the Council's agreement. Examples of these organisations include housing associations, development agencies and companies providing services that the Council used to provide. (See also Scheduled organisations.)

Associate

An organisation or company other than a subsidiary or joint venture in which the Council has an interest and over whose operating and financial policies the Council has a lot of influence.

Capital charges

Charges the Council makes to services for using fixed assets when providing the service.

Capital contributions and grants

Money the Council receives towards paying for capital spending on a particular service or scheme.

Capital financing charges

The charge to the Council's capital financing reserve for repaying loans. It does not include:

- interest on the loans; or
- the direct cost of buying assets in the year.

Capital receipts

The proceeds from selling assets such as buildings.

Capital spending

The Council's spending on buying or creating a fixed asset or spending that adds to and does not just maintain the value of an existing asset, for example, land, buildings, roads, new furniture, vehicles and equipment.

Capitalisation

Capitalisation of an asset takes place when its cost is written off bit by bit, over its useful life, instead of writing off the cost in the year the asset was bought.

Carry-forwards

Revenue budgets the Council has not spent, which services can use in future years.

Cash-limited budgets

Fixed amounts of money, including allowances for pay and price increases, given to departments to run their services. All spending should be met from these budgets. This also involves flexibility in carrying forward underspending and overspending.

Central Government Grants

There are different types of grant.

- Revenue Support Grant – the main government grant to support Council services.
- Specific service grants – payments from the Government to cover Council spending on a particular service or project (for example, Standards Fund for schools). Specific grants are often a fixed percentage of the costs of a service or project.
- Supplementary grants – grants towards capital spending for highway schemes.

CIPFA

The Chartered Institute of Public Finance and Accountancy. This is the professional institute governing how public money is used and how it has to be reported.

Collection funds

Accounts which district councils keep to record the amounts of council tax collected.

Comfund

The Council operates a joint scheme called the Comfund to earn the best possible interest on our investments. We invest our spare reserves into this scheme, together with investments from other organisations who also take part.

Community assets

Assets that the Council plan to hold forever, have no set useful life, and may have restrictions on how we sell or otherwise dispose of them. Examples of community assets are parks, historic buildings and various conservation works.

Contingent liability

A possible liability which may arise when the Council knows the outcome of claims made against us which have not yet been settled.

Co-optee

A person who is not a member of the Council but is a member of a committee or sub-committee of the Council.

COVID-19

An infectious disease that was declared a pandemic on 30 January 2020 by the World Health Organisation.

Creditors (Payables)

People the Council owes money to for work, goods or services we receive but which we have not paid for by the end of the financial year.

Current value

The cost of an asset if bought in the current year.

Debtors (Receivables)

People who owe us money that the Council is due to receive but which we have not been paid by the end of the financial year.

Deferred Payment

An arrangement with a local authority that lets people use the value of their homes to help pay care home costs.

Deficit

There are two types of deficits. A fund is said to be in deficit when its liabilities are higher than its assets. An in-year deficit is achieved when spending is higher than income.

Depreciation

The reduction in the value of assets, for example, through wear and tear.

Fair value

The price at which the Council could buy or sell an asset or loan in a transaction with another organisation, less any grants we receive towards buying or using that asset.

Finance leases

Leases where the Council treats the organisation paying the lease as if they own the goods. The organisation gains the profits that would come with ownership, but it also suffers the losses (See Operating leases).

Financing transactions

Also known as interest and investment income. They mainly relate to interest payments and receipts associated with managing the Council's cash flow and reserves during the year.

Fixed assets

Items such as land, buildings, vehicles and major items of equipment, which benefit us over more than one year.

General reserves

The amounts the Council has built up this year, and over earlier years, that we have not set aside for specific purposes.

Gross book value

This is the original or revalued cost of an asset before any depreciation is taken off it. (See also Net Book Value.)

Historical cost

What a fixed asset cost the Council to buy originally.

IFRIC

International Financial Reporting Interpretations Committee. IFRIC reviews newly identified financial reporting issues not specifically addressed in IFRS or issues where unsatisfactory or conflicting interpretations have developed, with a goal to reaching a consensus on the appropriate treatment.

IFRS

International Financial Reporting Standards are issued and set by the International Accounting Standards Board (IASB). These are standards that companies and organisations follow when compiling financial statements and replace FRS.

Impairment

Where an asset's value has been reduced by physical deterioration or other factors beyond usual wear and tear. The asset's value in the accounts also has to be reduced to reflect this impairment.

Infrastructure

A fixed asset that cannot be taken away or transferred, and which the Council can only continue to benefit from by actually using it. Examples of infrastructure are roads, bridges and footpaths.

Intangible assets

Non-financial fixed assets that do not exist physically but that the Council owns or has a right to use. Examples include software licences.

Levies

The money the Council pays to the Environment Agency (for flood defence and land drainage purposes).

Long-term investments

Those investments which the Council plan to hold on a continuous basis

Material error

A mistake in the accounts that could be serious enough to influence the reader's opinion of the Council's financial performance or position.

Minimum debt repayment or minimum revenue provision (MRP)

The amount the Council have to set aside to repay loans.

Non-Domestic Rate (NDR) income

Business rates, (non-domestic rates or NDR), are a tax on properties which are not used for domestic purposes, such as shops, factories, offices, beach huts and moorings. They are collected by District Councils and distributed amongst the local precepting authorities and Central Government to fund service expenditure.

Net book value

The value of an asset as recorded in the accounts. It is usually the net current replacement or original cost less any depreciation the Council have charged.

Net current replacement cost

The cost of replacing an asset in its existing condition and use.

Net present value

The net present value (NPV) of an asset is the current net value of the future receipts and payments associated with it.

Net realisable value

The selling value of an asset less the costs of selling it.

Net service underspend

A service's total spending less that service's allocated budget, plus money that is carried forward from previous years.

Netted off

Where the money the Council are due to pay is reduced by the money that is owed to us.

Non-distributed costs

Specific overheads relating to unused assets and certain pension costs for employees' service in previous years. These are not allocated to service departments because they do not relate to the current year's cost of providing the service.

Non-funded pension schemes

Pension schemes that do not have an actual fund from which pensions are paid and contributions are made into. Instead payments are made to current pensioners directly from the year's budget. The teachers' pension scheme is an example of a non-funded scheme that the Council runs.

Notionally funded pension schemes

A form of non-funded pension scheme that are treated similarly to funded schemes. There is no stock of investments, but employer contribution rates are set as if there were investments, based upon figures set by government actuaries. The Teachers' Pension Scheme is notionally funded.

Operating leases

Under this type of lease, the risks and rewards of ownership of the leased goods stay with the company leasing out the goods.

Operational assets

Those assets (for example, land and buildings) that the Council uses so we can provide services.

Other operating costs

Includes spending on buildings, fuel, light, rent, rates, buying furniture and equipment, administration and other costs.

Precept

What the Council demand from the collection funds maintained by the district councils.

Principal

The original amount borrowed. It does not include interest or other charges.

Projected unit method

A common method by which actuaries estimate the cost of future benefits to a pension scheme. The method works out the costs of future benefits members are expected to earn over a period (usually a year) following the valuation date, allowing for future increases in pay until retirement or the date a member leaves service.

Provisions

Money the Council keeps to pay for known future costs.

Prudential Code

The Prudential Code has been introduced by the regulations supporting the Local Government Act 2003. Local authorities can borrow money to pay for capital spending in a similar way as people can get a mortgage to buy a house. Until April 2004, the Government used to tell local authorities how much they could borrow. This code replaces central government control with self-regulation — each local authority is now responsible for deciding how much it can afford to borrow. Under the regulations, when we are making this decision the Council must keep within the Prudential Code, which sets out the principles that local authorities must follow. These include the following.

- Affordability – can the Council afford to make the repayments?
- Prudence – is the Council planning to borrow sensibly?
- Value for money – will the loan pay for something that is good value for money?
- Service delivery – will the loan help us to provide our services in the way we want to?

PWLB

The Public Works Loan Board, a government agency which lends money to the public sector.

Remuneration

Includes taxable salary payments to employees less employees' pension contributions, together with non-taxable payments when employment ends (including redundancy, pension enhancement payments, and pay in lieu of notice), taxable expense allowances and any other taxable benefits.

Revenue spending

The day-to-day spending on employment costs, other operating costs, and capital charges, less any income from fees, and charges.

Ring-fenced grant

This is money that can only be used for certain things.

Scheduled organisations

Local government organisations that have automatic rights to take part in the Local Government Pension Scheme. Examples include the County Council, Police Authority, district and town councils, further-education colleges, National Park Authority and the probation service (See also Admitted organisations).

Surplus

There are two types of surplus. A fund is said to be in surplus when its assets are higher than its liabilities. The Council achieves an in-year surplus when our income is higher than our spending.

The Code

The Code of Practice on Local Authority Accounting. Provided by CIPFA this takes over from the SORP and includes the move to international accounting standards. The Code provides details and definitions on subjects for which it was not considered appropriate to issue an international financial reporting standard (IFRS).

Transfer values

Payments made between pension schemes of accumulated pension funds for employees who change their employment.

Work-in-progress

The value of work on an unfinished project at the end of the year.

Write down

To reduce the value of an asset in a set of accounts.

Write off

To reduce the value of an asset to nothing in a set of accounts.

More Information

If you have any comments or feedback on these accounts, please contact us. This will help us to provide a more informative and useful document.

For more information on these accounts, or for extra copies, please write to:

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These accounts are also available on the internet at

<https://www.somerset.gov.uk/how-the-council-works/budgets-and-accounts/>

These accounts are also available in Braille, in large print, on tape and on CD and we can translate them into different languages.



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Please ask for: Paul Griffin

Email: pxgriffin@somerset.gov.uk

Direct Dial: 01823 359574

Date: 24 November 2022

Dear Sirs

Somerset County Council Financial Statements for the year ended 31 March 2022

This representation letter is provided in connection with the audit of the financial statements of Somerset County Council for the year ended 31 March 2022 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 2020/22 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 2021/22 ("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. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.
- vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- vii. Except as disclosed in the financial statements:
 - a. there are no unrecorded liabilities, actual or contingent
 - b. none of the assets of the Council has been assigned, pledged or mortgaged

- c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Council's 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 continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that:
 - a. the nature of the Council means that, notwithstanding any intention to liquidate the Council or cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements

- b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and
 - c. the Council's system of internal control has not identified any events or conditions relevant to going concern.
- xv. 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

- xvi. We have provided you with:
- a. access to all information of which we are aware that is relevant to the preparation of the Council's financial statements such as records, documentation, and other matters.
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. access to persons within the Council via remote arrangements, from whom you determined it necessary to obtain audit evidence.
- xvii. We have communicated to you all deficiencies in internal control of which management is aware.
- xviii. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xix. 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.
- xx. 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.



- xxi. 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.
- xxii. 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.
- xxiii. 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.
- xxiv. 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

- xxv. 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

- xxvi. 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's financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 24 November 2022.

Yours faithfully,

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Somerset County Council

County Hall, Taunton
Somerset, TA1 4DY



SOMERSET
County Council

Name: Cllr Dean Ruddle

Name: Jason Vaughan

Position: Chair of Audit Committee

Position: Director of Finance

Date: 24/11/2022

Date: 24/11/2022

Signed on behalf of the Council

The Audit Findings for Somerset County Council

Year ended 31 March 2022

Page 279

11 November 2022



Contents



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Section

1. Headlines
2. Financial statements
3. Value for money arrangements
4. Independence and ethics

Appendices

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

Page

- 3
- 5
- 19
- 21

- 24
- 28
- 31
- 35
- 36

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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

Name : Barrie Morris
For Grant Thornton UK LLP
Date : 11 November 2022

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Somerset County Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2022 for those charged with governance.

Page 281

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed remotely during August-November. Our findings are summarised on pages 7 to 20. We have identified adjustments to the financial statements that have resulted in a number of adjustments. 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.

Our work is substantially complete, subject to the following outstanding matters;

- receipt and review of the final Pension Fund Auditor response on IAS 19 assurances
- review of related party disclosures
- confirmation and review of the Infrastructure Statutory Instrument and any associated work resulting from this
- final review of audit file by the audit manager and key audit partner
- receipt of management representation letter; and
- review of the final set of financial statements.

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

Our anticipated audit report opinion will be unmodified.

1. Headlines

Value for Money (VFM) arrangements

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

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

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

We have completed our VFM work, which is summarised on pages 19 and 20, and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report. We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Statutory duties

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

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

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

We intend to delay the certification of the closure of the 2021/22 audit of Somerset County Council in the audit report, due to incomplete WGA work as set out above.

Significant Matters

Whilst we did not encounter any significant difficulties or identify any significant matters arising during our audit, we have continued to experience challenges in getting timely and comprehensive responses to our queries in relation to the valuation of property, plant and equipment. As in previous years, this has resulted in additional time being required to audit these areas within the financial statements and an associated additional cost to the Council. Given that our enquires are similar year on year, we impress upon the Council the need to put in place effective arrangements in order that our queries can be responded to in an efficient, comprehensive and timely way.

In addition, we have raised a challenge with the Council that, in our view, the level of MRP being set aside each year may not be prudent and is well below that expected based on the current guidance. Management have agreed that they will review this for the financial year 2022-23 and will put in place a new policy, that fully accords with the current guidance, for the new Authority from 1 April 2023.

2. Financial Statements

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 will be discussed with management and the Audit Committee.

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;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved as outlined on page 3, we anticipate issuing an unqualified audit.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. Both your finance team and our audit team faced audit challenges again this year, such as the continuation of remote working and the need to access supporting evidence remotely, which necessitates additional work and takes longer. Many of the Council's officer respond proactively and in a timely way to our enquiries, although there remains some areas where further improvement is required to ensure that we receive sufficient and robust supporting evidence in a timely way. Some of these delays, and the need for additional enquiries and audit work, was required in order for us to gain sufficient audit assurance in respect of our auditor's opinion on the financial statements. This has also resulted in additional fees being levied to the Council. We are keen to continue to work proactively with the Council to address these areas and ensure that the audit can be completed as efficiently as possible, and this will be even more important as the Council transitions into the new Unitary Auditory from 1 April 2023 and the unique challenges that this will present.

2. Financial Statements



Our approach to materiality

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

We have revised the performance materiality due to the actual gross expenditure changing significantly from that at the planning stage resulting in a review of the appropriateness of the materiality figure.

We detail in the table our determination of materiality for Somerset County Council.

| | Council Amount (£) | Qualitative factors considered |
|---|-----------------------|--|
| Materiality for the financial statements | 14,400,000 | This is equivalent to approximately 1.5% of the gross expenditure of the Council for the previous financial year, and is the same percentage and measure as the previous year. |
| Performance materiality | 9,370,000 | <p>We have determined performance materiality at 65% of the materiality. Our rationale is as follows:</p> <ul style="list-style-type: none"> • Senior management and key reporting personnel in the finance function have remained stable from the prior year audit. • There were a number of misstatements and recommendations arising as a result of the financial statements audits in the prior years so we have a considered a lower percentage for this purpose. |
| Trivial matters | 721,000 | Set at 5% of materiality. |
| Materiality for senior officer remuneration | 20,000 | We deem senior officer remuneration as a specific sensitive area for the users of the accounts and have applied a lower materiality on the remuneration disclosure. |

2. Financial Statements - Significant risks

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

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

Risks identified in our Audit Plan

Commentary

Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.

As part of our work we:

- evaluated the design effectiveness of management controls over journals;
- analysed the journals listing and determine the criteria for selecting high risk unusual journals;
- gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence;
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions; and
- tested high value and unusual journals processed during the year and at the accounts production stage for appropriateness and corroboration.

Our audit work to date, including our review of journal entries and the related control environment, has not identified any significant issues with regards to management override of controls. However, we have highlighted a number of concerns in relation to journals on page 8 and raised recommendations within Appendix A.

2. Financial Statements - Key messages

Key messages arising from our financial statements work

We have identified control weaknesses with regard to the posting of journals to the ledger and the approvals process. It is important to note that, as a result of our testing, we did not identify any inappropriate journals. However, we need to report areas where controls could be strengthened or efficiencies introduced to the process and have made a recommendation in regard to journals - see Appendix A.

In summary, we identified the following weaknesses:

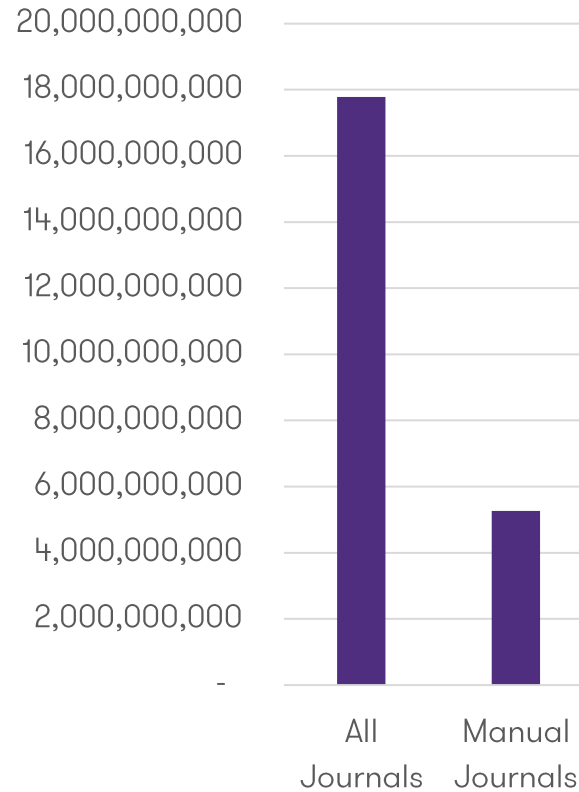
Page 286

The Council posted around 600,000 transactions during the year, with a total value of nearly £17.8 billion, compared to gross expenditure on services of around £961m. Some 30% [£5.3bn] of these transactions are manual type transactions which can be prepared by anyone who has been assigned upload access directly into the finance system via, for example, spreadsheet. There is no proactive review or approval required before the transactions are posted, however we do recognise that prior approval is required for an individual's role is granted access. Once a quarter, a report is run from SAP, showing all of the 'manual' type transactions above £100,000 posted in that period. A high-level, retrospective, review for reasonableness is performed by the Chief Accountant. This control is reactive - rather than preventative.

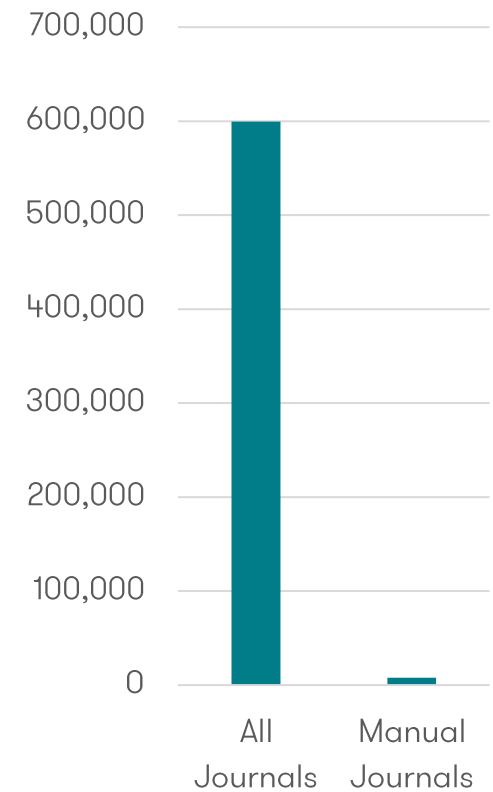
- Only those 'manual' transaction lines with a value greater than £100,000 are reviewed with transactions lower than that value not subject any review. There are also no limits on the value of transactions that any individual can post.
- During the year, the Council posted a total of 38,397 credit lines and 109,030 debit lines as 'manual' type. Of these, 36,251 [94%] credits and 107,016 [98%] debits had a value below £100,000 and therefore were not subject to any review. While the total value of these transactions was only 3.4% [credits] and 4.0% [debits] of the total £5.3bn posted, this amounted to a total of £175m of credits and £209m of debits that were not reviewed, which is around 27 times greater than our materiality level.
- We also found that 145 different individuals posted transactions to the ledger during the year. This appears to be exceptionally high. 46 of these individuals posted 10 or fewer journals during the course of the year, which raises the question as to whether or not they need to have access to the ledger. There is an increased risk of error when people are undertaking tasks so infrequently.

We therefore recommend that the extent and frequency of journal transactions by so many officers, be reviewed, particularly in light of the new financial ledger system being implemented for the new Unitary Authority from 1 April 2023.

Analysis of Journals
(by £ value)



Analysis of Journals
(by transactions)



2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Income from Fees, Charges and Other Service Income

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

For Somerset County Council, we concluded that the greatest risk of material misstatement relates to 'Fees, Charges, and Other Service Income'. We therefore identified the occurrence of 'Fees, Charges, and Other Service Income' as a significant risk, which is one of the most significant assessed risks of material misstatement.

We rebutted this presumed risk for the other revenue streams of the Authority because:

- Other income streams are primarily derived from grants or formula based income from Central Government and tax payers; and/or
- opportunities to manipulate revenue recognition are very limited.

For 'Fees, Charges and Other Service Income' we have:

- evaluated the Council's accounting policy for recognition of income from fees, charges, and other service income for appropriateness;
- gained an understanding of the Council's system for accounting for income from fees, charges, and other service income and evaluate the design of the associated controls;
- agreed, on a sample basis, amounts recognised as income from fees, charges and other service income in the financial statements to supporting documents.

For all other revenue streams, having considered the risk factors set out in ISA240, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

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

To date our audit work has not identified any issues in respect of fees and charges income.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of land and buildings

The Council revalues its land and buildings on a rolling basis, with assets physically inspected at least every five years. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£465m) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council's financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used.

We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.

As part of our work we have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to 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 valuation was carried out;
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Council's valuer's report and the assumptions that underpin the valuation; and
- tested revaluations made during the year to see if they had been input correctly into the Council's asset register; and
- evaluated the assumptions made by the valuer for those assets revalued at 31 March 2021. For the assets not formally revalued in year we have assessed how management has satisfied themselves that these assets are not materially different to current value at year end.
- engaged an auditor expert to further challenge underlying assumptions and terms of engagement with the valuer.

Our work on Property, Plant and Equipment (including Land and Buildings), is substantially complete and has identified a number of recommendations (see Appendix A) and adjustments (see Appendix C.) Errors that were adjusted totalled a £1.314m increase to land and building values. A number of adjustments totalling an increase to land and buildings of £2.650m remain unadjusted as they are below materiality and extrapolated based on the testing completed.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of pension fund net liability

The Authority's pension fund net liability (£812.7m), as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.

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

The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.

The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.

The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability.

In particular the discount rate, where our consulting actuary has indicated that a 0.1% change in this assumption would have approximately 2% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Authority's pension fund net liability as a significant risk.

We have:

- updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;
- undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and
- obtained assurances from the auditor of Somerset Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Our work on the Pension Liability, is substantially complete and has identified an amendment (see page 14 and Appendix A for details).

2. Financial Statements – Other Risks

Risks identified in our Audit Plan

Commentary

Valuations of Infrastructure assets

The Council owns infrastructure assets with a net book value of £506.2m (as at 31 March 2022).

The Code requires infrastructure to be reported in the balance sheet at historic cost less accumulated depreciation and impairment and that where there is 'enhancement' to the assets, that the replaced components are derecognised. Where authorities are not fully compliant with these requirements, there may be a risk of material misstatement

Most local government entities own infrastructure assets and the balance is likely to be material in most cases. For Local Government entities with material infrastructure assets, at either a gross or net value basis, there is therefore, a potential risk of material misstatement in relation to this balance.

We have held discussions with management over their treatment of this balance and have sought further evidence to support these assertions.

The Council completed a review of Infrastructure assets and obtained detailed records dating back to 2010. A corresponding restatement to the prior year gross cost figure of £166.7m was actioned to remove any past spend that should have been derecognised in past years. This approach was also applied to the 2021/22 draft figures. However, following discussion and the imminent statutory override referenced below, the Council have reverted back to the previous approach and disclosures and will review in light of the provisions of the override when confirmed.

Further consideration of this issue has been undertaken by the key stakeholders, DLUHC, CiPFA, the NAO and the FRC, and it has been agreed that a statutory override will be applied.

We have discussed the options with management which are, earlier completion but with a potential qualified opinion or waiting for the statutory override to come in to force. The statutory instrument is currently forecast to come into legislation on 25th December 2022 and waiting for this will mean that the reporting date of 30 November will not be met. Management have indicated their preference for waiting for the legislation to come into force and we continue to discuss the issue and provide updates to members.

2. Financial Statements – key judgements and estimates

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

| Significant judgement or estimate | Commentary | Audit Comments | Assessment |
|--------------------------------------|---|--|------------|
| Land and Building valuations – £465m | <p>Other land and buildings has a net book value of £465m as at 31 March 2022. The majority of these land and buildings are specialised assets such as schools and libraries which are required to be valued at depreciated replacement cost (DRC), 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.</p> <p>The Council engages it's in-house valuer to undertake the annual valuations who utilises the support of external valuers where required.</p> <p>The Council's land and buildings are revalued on a five year cycle. In 2021/22 the Council valued a significant proportion of all land and building assets (67%) – as detailed in note 25 of the financial statements.</p> | <p>We have carried out the following work in relation to this estimate:</p> <ul style="list-style-type: none"> assessed management's expert to ensure suitably qualified and independent, assessed the completeness and accuracy of the underlying information used to determine the estimate, confirmed there were no changes to valuation method, assessed the consistency of the estimate against near neighbours and using the Gerald Eve report, and assessed the adequacy of disclosure of the estimate in the financial statements. engaged an auditor expert to further challenge underlying assumptions and terms of engagement with the valuer. <p>We have identified a number of issues whilst completing our work on PPE, see Appendices A - C. These differences in estimation do not have a material impact on the financial statement, however, we consider them to be cautious. We have made recommendations in line with the previous year to review a number of areas in relation to valuations. These are detailed at appendix A.</p> | Grey |

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate

Commentary

Audit Comments

Assessment

Net pension liability – £812.7m

The Council's total net pension liability per the draft statement of accounts at 31 March 2022 is £812.7m (PY £993.6m) Somerset Pension Fund Local Government and unfunded defined benefit pension scheme obligations. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years.

The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.

We have carried out the following work in relation to this estimate:

- Assessed management's expert to ensure suitably qualified and independent,
- Assessed the actuary's roll forward approach taken,
- We have used PwC as auditors expert to assess actuary and assumptions made by actuary. The table below summarises where Somerset County Council fall in the acceptable ranges set by PwC:

| Assumption | Actuary Value | PwC range | Assessment |
|--|---|---|------------------------|
| Discount rate | 2.60% | 2.5% - 2.6% | ✓ |
| Pension increase rate | 3.25% | 3.05% - 3.45% | ✓ |
| Salary growth | 2% | 4.25% | X |
| Life expectancy – Males currently aged 45 / 65 | Male current: 23.1 Male Future: 24.4 | Male current: 20.5 - 23.1 Male Future: 21.9 - 24.4 | ✓ (But upper limit) |
| Life expectancy – Females currently aged 45 / 65 | Female current: 24.7 Female Future: 26.1 | Female current: 23.4 - 25 Female Future: 24.9 - 26.4 | ✓ |

- We have gained assurance over the completeness and accuracy of the underlying information used to determine the estimate,
- We have gained assurance over the reasonableness of the Council's share of LGPS pension assets, and
- We have reviewed the adequacy of disclosure of the estimate in the financial statements.

The Pension Liability was understated as a result of the application of a bespoke salary increase assumption chosen by the Council. The percentage of 2% was challenged as it was found to be significantly lower than the expectation set by the auditor's expert of 4.25%. An updated IAS 19 report was requested from the actuary by the Council, which resulted in an increase to the liability of £57.351m. This has been reflected in the audit adjustments in Appendix C.

Blue

2. Financial Statements - key judgements and estimates

| Significant judgement or estimate | Commentary | Audit Comments | Assessment |
|-----------------------------------|--|--|------------|
| Minimum Revenue Provision - £4.4m | <ul style="list-style-type: none"> The Authority uses capital receipts, capital grants and revenue contributions to fund its acquisition of non-current assets, including operational land, property, plant and equipment and investment properties. The remainder is unfinanced capital expenditure which is represented in the capital financing requirement. The Council may opt to take out borrowing to cover this. Where the cost is not financed from capital receipt, capital grant or revenue contributions, the authority is required to charge MRP to cover the unfinanced capital expenditure over an appropriate period. In calculating a prudent provision, local authorities are required to have regard to the statutory guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG), which was most recently updated and issued in 2018. The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. The Council provided for £4.4m of MRP in 2021/22 against a CFR of £471.8m Government have consulted on changes to the regulations that underpin MRP, to clarify that capital receipts may not be used in place of a prudent MRP and that MRP should be applied to all unfinanced capital expenditure and that certain assets should not be omitted. The consultation highlighted that the intention is not to change policy, but to clearly set out in legislation, the practices that authorities should already be following. Government will issue a full response to the consultation in due course. | <ul style="list-style-type: none"> The Council provided for £4.4m of MRP in 2021/22 against a CFR of £471.8m. This represents 0.9% revenue provision compared to an average of 2.2% for all county councils. The Statutory Guidance on Minimum Revenue Provision confirms that useful asset lives, which are used in order to calculate a prudent MRP charge, should not normally exceed 50 years. This would equate to an MRP charge of 2% of the CFR and is in line with the average charge for all county councils shown in the graph. Somerset County Council's MRP charge of 0.9% of the CFR represents an average useful asset life closer to 111 years. In our view this is not a prudent MRP charge and is not calculated on the basis of the period the underlying assets are likely to provide service benefits to the Council. Based on a 2% MRP charge on the Council's CFR, we have extrapolated that prudent MRP would be in the region of £9.4m, and so the Council is underproviding MRP by an estimated £5m for 2021/22. The Council does not intend to amend the provision for 2021/22, therefore we have included it within the unadjusted misstatements in Appendix C. We understand that the Council is reviewing the MRP Policy for 2023/24 as part of the transition to the new unitary authority. We have made a recommendation that the Council should also review the MRP charge for 2022/23 in order to ensure that the CFR is financed over a prudent period. Please see Appendix A for details. | Blue |

2. Financial Statements - other communication requirements

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

| Issue | Commentary |
|---|--|
| Matters in relation to fraud | We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures. |
| Matters in relation to related parties | To date, we are not aware of any related parties or related party transactions which have not been disclosed. Work in this area is ongoing. |
| Matters in relation to laws and regulations | You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work. |
| Written representations | A letter of representation has been requested from the Council, which is included in the Audit Committee papers. [Specific representations have been requested from management in respect of the significant assumptions used in making the Minimum Revenue Provision estimate in light of our findings reflected in this report. |
| Confirmation requests from third parties | We requested from management permission to send confirmation requests for bank and investment balances. This permission was granted and the requests were sent. All confirmations were received with no issues noted |
| Accounting practices | We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review identified a number of amendments which are outlined in Appendix C. |
| Audit evidence and explanations/ significant difficulties | All information and explanations requested from management has been provided. However, as reported previously and in prior years, there are a number of instances where robust and comprehensive supporting evidence has not been provided in a timely way leading to additional audit queries and work and delays in the completion of the audit. |

2. Financial Statements - other communication requirements



Our responsibility

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

| Issue | Commentary |
|---------------|--|
| Going concern | <p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none">• the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities• for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none">• the nature of the Council and the environment in which it operates• the Council's financial reporting framework• the Council's system of internal control for identifying events or conditions relevant to going concern• management's going concern assessment. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none">• a material uncertainty related to going concern has not been identified• management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. |

2. Financial Statements - other responsibilities under the Code

| Issue | Commentary |
|---|---|
| Other information | <p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect.</p> |
| Matters on which we report by exception | <p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. <p>We have nothing to report on these matters.</p> |
| Specified procedures for Whole of Government Accounts | <p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Guidance has not yet been received for the 2021-22 financial year. If the thresholds remain the same as the prior year, we expect that work will not be required as the Council does not exceed the threshold of £2 billion. Note that work is not yet complete and the timescales are unknown, as we await central guidance.</p> |
| Certification of the closure of the audit | <p>We intend to delay the certification of the closure of the 2021/22 audit of Somerset County Council in the audit report, due to incomplete WGA work as set out above.</p> |



3. Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. The Code requires auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Page 297



Improving economy, efficiency and effectiveness

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



Financial Sustainability

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



Governance

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

Potential types of recommendations

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



Statutory recommendation

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



Key recommendation

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



Improvement recommendation

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

3. VFM - our procedures and conclusions

We have completed our VFM work and our detailed commentary is set out in the separate Auditor’s Annual Report, which is presented alongside this report.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. The risks we identified are detailed in the table below, along with the further procedures we performed and our conclusions. We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

| Risk of significant weakness | Procedures undertaken | Findings | Outcome |
|--|---|---|--|
| <p>Risk to the delivery of the Financial Plan</p> <p>Financial sustainability was identified as a potential significant weakness.</p> <p>Whilst the Council has built up a healthier level of reserves and has strengthened its delivering of financial targets and savings in recent years, financial challenge and uncertainty continues to increase. In setting the 2021/22 budget and Medium Financial Strategy, the Council has identified the need to make a further savings.</p> | <p>We have undertaken additional work to assess the progress made across key financial LGR workstreams.</p> | <p>There is a robust process in place for delivering a balanced budget for 2023/24, but the scale of savings required to achieve a balanced position for the first year of Somerset Council represents a significant challenge.</p> | <p>Appropriate arrangements are in place, with three improvement recommendations raised.</p> |
| <p>Arrangements for transition to the new Unitary Authority</p> <p>Governance was identified as a potential significant weakness.</p> <p>Local Government reorganisation in Somerset will result in an end to the current two-tier system from 1 April 2023, with a single Unitary Authority taking responsibility for service delivery across the county. There is a risk that arrangements are not in place to support a successful transition.</p> | <p>We have undertaken additional work to assess the LGR programme’s governance arrangements.</p> | <p>There are good governance arrangements in place to manage the complex task of local government reorganisation in Somerset. Progress is closely managed and monitored and at the time of writing no material gaps in delivery of products for vesting day have been identified.</p> | <p>Appropriate arrangements are in place, with two improvement recommendations raised.</p> |
| <p>Improving economy, efficiency and effectiveness was not identified as a potential significant weakness.</p> | <p>No additional procedures undertaken.</p> | <p>Appropriate arrangements are in place to improve economy, efficiency and effectiveness.</p> | <p>Appropriate arrangements are in place, with three improvement recommendations raised.</p> |

4. 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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Transparency

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

4. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

The following non-audit services were identified which were charged from the beginning of the financial year to November 2022, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

| Service | Fees £ | Threats identified | Safeguards |
|--|------------------------------------|---|---|
| Audit related | | | |
| Teachers' Pension Return 2020/21 | 5,000 | Self-Interest (because this is a recurring fee) Self review (because GT provides audit services) | 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 £5,000 in comparison to the total fee for the audit of £154,615 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. To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants. |
| Teachers' Pension Return 2021/22 | 7,500 | Self-Interest (because this is a recurring fee) Self review (because GT provides audit services) | 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 £6,000 in comparison to the total fee for the audit of £154,615 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. To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants. |
| Non-Audit Services | | | |
| CFO Insights (this service has been initiated in July 2022 but applies to the 2022-23 financial year and is a three year contract) | £34,000 (for 3 years from 2022-23) | Self-Interest (because this is a recurring fee) Self review (because GT provides audit services) | 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 £11,333 per annum for three years in comparison to the total fee for the audit of £154,615 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. No significant self-review threat. The audit will consider the accounting treatment of the payments made and this is not part of CFOi service. The work will be undertaken by a team independent of the audit team |

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. None of the services provided are subject to contingent fees.

Appendices

A. Action plan – Audit of Financial Statements

We have identified 9 recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

| Assessment | Issue and risk | Recommendations |
|------------|--|--|
| High | <p>The Council provided for £4.4m of MRP in 2021/22 against a CFR of £471.8m. This represents 0.9% revenue provision compared to an average of 2.2% for all county councils.</p> <p>The Statutory Guidance on Minimum Revenue Provision confirms that useful asset lives, which are used in order to calculate a prudent MRP charge, should not normally exceed 50 years. This would equate to an MRP charge of 2% of the CFR. Somerset County Council’s MRP charge of 0.9% of the CFR represents an average useful asset life closer to 111 years. In our view this is not a prudent MRP charge and is not calculated on the basis of the period the underlying assets are likely to provide service benefits to the Council.</p> <p>Based on a 2% MRP charge on the Council’s CFR, we have extrapolated that prudent MRP would be in the region of £9.4m, and so the Council is underproviding MRP by an estimated £5m for 2021/22.</p> | <p>The Council should review the MRP charge for 2022/23 in order to ensure that the CFR is financed over a prudent period.</p> <p>Management response</p> <p>A new MRP policy is being developed for the new Council in 2023/24 and following the issues raised by the auditor the policy for 2022/23 will be reviewed.</p> |
| Medium | <p>Debtors - Our cut off testing on invoices raised either side of the year end, identified one sample item which was incorrectly excluded from the debtors accrual processes at year end. The item should have been accrued for but was not included in the 2021/22 statement of accounts. The extrapolated error was trivial in this case.</p> <p>Debtors - Our cut off testing on income received into the bank either side of year end also identified a similar error. We identified one sample item which was incorrectly excluded from the debtors accrual processes at year end. The item should have been accrued for but was not included in the 2021/22 statement of accounts. The extrapolated error was also trivial in this case.</p> <p>Creditors - Our cut off testing on invoices received either side of year end, identified one sample which was incorrectly excluded from the creditor accrual processes at year end. The item should have been accrued for but was not included in the 2021/22 statement of accounts. The extrapolated error was trivial in this case.</p> <p>There is a risk that a material error could occur from weaknesses in the year end accruals process.</p> | <p>We recommend that the Council should review their processes for ensuring all income and expenditure is accounted for within the correct financial year.</p> <p>Management response</p> <p>The Council will review its processes.</p> |

Key

- High – Significant control weakness or impact on financial statements
- Medium – Control deficiency and limited impact on the financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements

| Assessment | Issue and risk | Recommendations |
|------------|--|---|
| High | <p>There is no formal approval process for posting journals, therefore the finance team members who have access to post journals are effectively self-approving.</p> <p>During our audit testing we also encountered issues in obtaining timely audit evidence of a suitable quality to support journal transactions. This caused delays in completing the testing and applied pressure in other areas of the audit.</p> | <p>The use of journals should be reviewed so that only a limited number of people are authorised to process journals. The regular use of journals should also be reviewed to identify whether there are alternative ways to ensure that transactions are allocated to the correct general ledger codes in the first instance without the need for a subsequent journal transaction. All journal entries should be subject to review and authorisation processes with quality control measures in place to obtain suitable evidence to support the transaction. This will reduce the risk of management over-ride through the inappropriate use of journals or an error in the journal transaction.</p> <p>Management response</p> <p>The Council will review journal access and compulsory training sessions for all journal users (similar to the sessions ran in 21/22) are planned for 2022/23. The new MS Dynamics finance system introduction in April 2023 will further strengthen controls.</p> |
| Medium | <p>Within our work on cash and cash equivalents, we were unable to agree a schools balance of £34k back to third party evidence. This is due to the signatories leaving the school with no handover procedure in place.</p> <p>We also identified and confirmed with the Council, that bank reconciliations were not carried out for the months of February and April 2022. This was due to a combination of staff absence and resourcing issues.</p> <p>This represents a risk of a control deficiency with the cash management processes and that errors or fraudulent activity could go undetected.</p> | <p>We recommend that the Council review its cash management processes and implement controls to ensure monthly reconciliations are completed and access is given to all bank account information.</p> <p>Management response</p> <p>The Council accepts the recommendation and will review its current arrangements</p> |

A. Action plan – Audit of Financial Statements

| Assessment | Issue and risk | Recommendations |
|------------|--|--|
| High | <p>Our audit work on Property Plant and Equipment (including Land and Buildings) identified a number of issues. These are outlined below:</p> <ul style="list-style-type: none"> We identified a number of vehicles that were fully depreciated at year end but are still in use by the Council. These have a gross book value of 4.38m in the Balance Sheet. As part of our testing on PPE valuations, we have identified discrepancies in the floor area for many of sampled assets when comparing the floor area used by the valuer to the floor area as per CAD drawings and authority records. The valuer has indicated that these differences are likely due to extensions being built after the valuation was performed, however, the valuer cannot tell us if these extensions were put in place before or after the year end date. The valuer has also stated there is a deminimis in which they are not informed about certain extensions where they are not sufficiently large. As part of our testing on land valuation samples, we have identified that the council has split the land into developed and undeveloped land (other than school land). The valuer stated that they have split the land based on their inspection or on the basis of Modern Equivalent Asset (MEA) principles. However, the valuer was not able to provide any evidence or drawings to support the split. For swimming pool DRC assets the valuer has used BCIS build cost rates for a sports hall and has not been able to provide evidence to support this judgement. The build cost rate for a swimming pool is more than that of a sports hall. We identified that for a number of samples the valuer has used a floor area in the valuation (which is different to actual floor area) based on Modern Equivalent Asset principles, but no supporting evidence of this judgement was available. We identified that client has made changes to the externals rate being used in the valuation as they apply their own rates taken from construction projects across the County. The rates therefore are specific to the Council's construction. However, no supporting evidence could be provided and we have been informed that the data has been lost as part of a data migration exercise. We identified that in a number of the valuations the valuer has applied a different build year than the actual build year. The valuer confirmed that a blanket build year for the externals in that sample was applied, based on the inspection data. However, no supporting evidence of this judgement was available. | <ul style="list-style-type: none"> We recommend the Council reconsider their policy on useful economic life to reflect the actual use of such assets. We recommend a more robust review of the updated floor areas for assets revalued at the year end date, so that large extensions and changes to the floor area are taken into account. We also recommend that the valuer obtains information on when such extensions took place. We recommend the client to maintain the evidence of inspection as a support to their judgement. We recommend that the valuers use the most appropriate BCIS rate available for the asset type within the valuation. We recommend the valuer obtains supporting evidence for all assumptions and judgements made within the valuation. <p>Management response</p> <ul style="list-style-type: none"> The Council will carry out a full review of vehicle assets to ensure the useful economic life reflects their actual use. In line with recommendations made on this matter in previous audits, we have carried out a review of floor areas and some areas were amended to take into account material changes. However, as management responses in previous years have noted, in order to make the best overall use of resources we take a proportionate approach to this review and do not pick up non-material changes mid-cycle. The majority of discrepancies noted during the course of the audit fell into this non-material category. We acknowledge that further improvements could be made, particularly where changes have taken effect late in the financial year. With our current systems and resources there is a limit to what can be done to improve robustness further but the point will be reviewed again following the implementation of a new asset management system during 2023 (noting that any improvements are therefore unlikely to take effect in time for the 2022/23 valuation). We accept and will implement the recommendation that information on the dates of changes should be noted by the valuer (where such changes are material and therefore picked up in our in-year review). We note that record keeping could be improved for some of the individual asset valuations and will adopt a standard approach to maintaining evidence of inspection records to ensure a consistent approach is adopted by all valuers. This recommendation is accepted and, in line with recommendations in previous audits we have taken steps to ensure that the most appropriate BCIS rate is used for major asset classes. Going forward, our Quantity Surveyor will build on and extend this approach for less prevalent asset types, taking a proportionate approach to make the best use of scarce resources. We have considered this recommendation and are confident that supporting evidence is obtained for all material assumptions and judgements made within the valuation. However (as noted above) record keeping could be improved for some of the individual asset valuations and, going forward, we will adopt a standard approach to maintaining records of this supporting evidence to ensure a consistent approach is adopted by all valuers. |

A. Action plan – Audit of Financial Statements

| Assessment | Issue and risk | Recommendations |
|------------|--|--|
| High | <p>Segregation of duty conflicts within SAP: Users with excessive privileged access rights within SAP, there is a risk that these access rights can be used to make unauthorised changes to the application, business processes or user accounts by overriding internal system controls, which could lead to fraud and/or financial misstatement. In particular, users with the particular authorisations allows them to access, schedule and monitor any batch job within SAP that may not be commensurate with their job roles. The primary risk is that unauthorised changes could be made to system parameters, unauthorised accounts created, unauthorised updated to own account privileges, deletion of audit logs.</p> | <p>The Council should adopt a risk based approach by creating a segregation of duty matrix. If incompatible business functions are granted to users due to organisational size constraints, the Council should ensure that there are review procedures in place to monitor activities, e.g reviewing reconciliations of account balances</p> <p>Management response</p> <p>The ability to monitor own jobs is required. We will look at removing S_BTCH_ADM and S_BTCH_NAM authorisation objects if this does not stop their ability to schedule and monitor SM 37 jobs.</p> |
| High | <p>Inappropriate segregation of duties as developers have access to production: A review was performed on all users with the ability to develop changes in development with those with the ability to create/import transports in production via STMS. It has been identified that two users with ability to develop changes and import them into production, and five users with ability to develop changes and import into production via RFC connections. The risk here is that the combination of access to develop and implement changes in production environment, and a risk of unauthorised changes being made.</p> | <p>The Council should segregate a user's ability to develop and implement changes. Privileged access to the production environment should be revoked from users that are involved in development. If for operational reasons access cannot be fully segregated, alternative options to mitigate the risk could include performing a review of change implementation activity logs. These should be regularly reviewed for appropriateness by an independent individual with evidence retained.</p> <p>Management response</p> <p>Access cannot be fully segregated. Changes cannot be made directly in PRD unless authorization is given to open the client (signed by the SAP Support Manager). We can investigate the use of logs to monitor changes</p> |
| High | <p>Users with inappropriate access to ABAP debugger in production Unauthorised access to ABAP debugger granted via S_DEVELOP authorisation object in change mode increases the risk of unauthorised change or deletion of table entries. The ability to perform debugging functions and the ability to bypass authority checks and execute transactions that a user is not authorised to do.</p> | <p>It is recommended that the Council remove ABAP debugger access permanently from production. It is best practice to use Firefighter accounts with an approved business case and set validity period</p> <p>Management response</p> <p>This will be investigated as it was thought that this access was only given by exception when required and authorised by SAP Support Manager.</p> |
| Medium | <p>SAP production client configuration settings are not appropriately configured: One user account was assigned with active developer keys in production along with the ability to develop changes in production. Where client settings to not restrict the implementation of direct changes in production, there is a risk of unauthorised changes.</p> | <p>It is recommended that the Council:</p> <ul style="list-style-type: none"> • Enable table logging settings within SAP (rec/client parameter set to 'production client number') and to track changes made to production client • Disable entries from DEVACCESS table in production and avoid assignment of active developer keys within production. However, if this level of access is required during exceptional circumstances, consider using Firefighter accounts with an approved business case and set validity period <p>Management response</p> <p>Table logging to be investigated to see if it can be switched on without performance issues on the system. The specific issue quoted was investigated and the reason for no specific approval sought was that the approval was contained in the overarching approval to implement the HR Service Pack Project. This is the only example where approval has not been requested. Individual is no longer part of the SCC HCL Support Team and will be removed.</p> |

B. Follow up of prior year recommendations

We identified the following issues in the audit of Somerset County Council's 2020/21 financial statements, which resulted in 8 recommendations being reported in our 2020/21 Audit Findings report. We have followed up on the implementation of our recommendations and note 5 are still to be completed.

Page 306

| Assessment | Issue and risk | Recommendation | Update on actions taken to address the issue |
|------------|--|---|---|
| ✓ | The Council are currently working towards Local Government Reorganisation under 'One Somerset'. As part of the business planning process costs and benefits have been identified. It is crucial that progress against these are monitored to fully understand progress against the original business plan and understand where differences might arise. | We recommend that the savings generated from re-organisation are clearly monitored and reported alongside the costs. This is to ensure that both the costs and benefits are delivered in line with the business plan. Furthermore, we recommend that as part of the 2022/23 budget setting process that the joint medium term financial challenge be explored and fully understood. | The medium term financial challenge started to be explored and understood as part of 22/23 budget process and is now complete. Savings for LGR are still being developed and will be reported on in 23/24, but work is progressing on developing them and the position was reported in November 2022 MTFP report. |
| X | Our IT review identified two control deficiencies. These are: 1 - Inappropriate segregation of duties as developers have access to the production environment, and 2 - Segregation of duty conflicts within SAP. Users with excessive privileged access rights within SAP , increases the risk of these elevated privileges being used to make unauthorised changes to the application, business processes or user accounts by over-riding internal system controls, which could lead to fraud and/or financial misstatement. | We recommend that the Council review access rights and segregation of duties. | Please see Appendix A. |

Assessment

- ✓ Action completed
- X Not yet addressed

B. Follow up of prior year recommendations

| Assessment | Issue and risk | Recommendation | Update on actions taken to address the issue |
|------------|---|---|--|
| ✓ | <p>Our testing identified 3 assets that had been included on the revaluation schedule that had not been revalued. The revenue implications of this for these 3 items was trivial, however, without controls in place to detect this, there is a risk of material misstatement.</p> <p>As part of our auditors expert's work they identified that the valuer has not included the overall total valuation figure in an applicable currency within the main body of the valuation certificate. Although the values are included for each element in each individual appendix, the legislation outlines that the figure should be included within the report</p> | <p>We recommend that the Council review the information provided by their valuer to ensure that assets included reconcile to the assets scheduled for revaluation under the rolling programme.</p> <p>We further recommend that the valuer ensures that the overall valuation figure is included at the front of their report.</p> | No issues identified in 2021/22. |
| X | <p>As part of our testing on PPE valuations, we have identified discrepancies in the floor area for many of the sampled assets when comparing the floor area used by the valuer to the floor area as per CAD drawings and authority records. The valuer has indicated that these differences are likely due to extensions being built post valuation. As a result we have included these differences within our unadjusted misstatements. The valuer has also stated there is a de-minimus in which they are not informed about certain extensions where they are not sufficiently large. This increases the risk of material misstatement.</p> | <p>We recommend that a more robust review be undertaken of the floor areas for assets held by the Council at the balance sheet to ensure that all additions to the floor areas are included with the valuation schedules.</p> | Please see Appendices A & C |
| X | <p>Our work on journals identified a number of other considerations that whilst are not deficiencies within the Council arrangements, are areas we believe that the Council should consider and take action. These are:</p> <ul style="list-style-type: none"> • there are a large number (125) of people that have access to and are able to process journals; • the number of journals processed is high (7,500 journals including nearly 480,000 individual journal lines) • the value of journals processed is large at £9.2bn. | <p>The use of journals should be reviewed so that only a limited number of people are authorised to process journals. The regular use of journals should also be reviewed to identify whether there are alternative ways to ensure that transactions are allocated to the correct general ledger codes in the first instance without the need for a subsequent journal transaction. This will reduce the risk of management over-ride through the inappropriate use of journals or an error in the journal transaction.</p> | Please see page 8 for analysis of journal entries. |

B. Follow up of prior year recommendations

| Assessment | Issue and risk | Recommendation | Update on actions taken to address the issue |
|------------|--|---|--|
| X | As part of our work on the PPE valuations, we found that the client were not able to provide the source data for the BCIS indices used as at the date of the valuation. The valuers were only able to provide the data as at the time of the audit due to it being a 'Live System'. | We recommend that the valuers maintain appropriate records of this data so that it can be easily evidenced during the time of the audit. | Please see Appendices A & C |
| X | <p>Within the PPE section of our report we set out that valuations were undertaken using building indices as at December 2020. We have compared these to the indices as at 31 March 2021 and have noted a potential difference of £2.054m (£5.747m extrapolated) in the overall depreciated replacement cost (DRC) assets as at the balance sheet date.</p> <p>We did note that the areas that have the largest impact are schools and swimming pools due to the number held and the large floor area.</p> | We recommend that particular attention be placed on reviewing these asset types at the year end, as this is where the largest impact is likely to be. | Please see Appendices A & C |
| TBC | We have reported that depreciation on infrastructure assets is not calculated in line with the Code requirements. This increases the risk of misstatement. Currently the Council calculate this on a weighted average life for each asset class. | We recommend that the Council reviews its depreciation policy for calculating depreciation on infrastructure assets. | Work on infrastructure assets is ongoing. |

C. Audit Adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2022.

Page 309

| Detail | Comprehensive Income and Expenditure Statement £'000 | Statement of Financial Position £' 000 | Impact on total net expenditure £'000 |
|---|---|---|---|
| The Pension Liability was understated as a result of the application of a bespoke salary increase assumption chosen by the Council. The percentage of 2% was challenged as it was found to be significantly lower than the expectation set by the auditor's expert of 4.25%. An updated IAS 19 report was requested from the actuary by the Council, which resulted in an increase to the liability of £57.351m | Remeasurement gains (-) / losses on pension assets/liabilities £57,351 | Dr Pension Reserve £57,351 Cr Pension Liability £57,351 | £57,351 |
| An error was identified on our PPE revaluations testing in relation to the floor area of the asset Holway Park County Primary School. The valuer used a floor area of 2,039 square metres when the floor area evidence inspected stated the correct area was 2,619 square metres. The auditor also identified an error in the external element of the asset, where soft land was overstated by 1,000 square metres and hard surface was understated by 1,000 square metres. In total, this resulted in an understatement of the asset of £1,314k. | Surplus (-) or Deficit on revaluation of non-current assets £1,314 | Dr Property, Plant and Equipment £1,314 Cr Revaluation Reserve £1,314 | £1,314 |
| A number of adjustments were required between revenue and capital grants due to a mapping issue between the ledger and the statement of accounts. The net impact of this on grant income is zero, but an adjustment was required to show the correct values in the note for each grant and correct these mapping issues. | Other Capital Grants Dr (3,750) Capital Grants - Standard Fund Cr 3,654 Capital Grants - Department for Health Cr 92 Capital Grants - LEP Cr 4 Revenue Grants - Standard Fund Dr (3,654) Revenue Grants - LEP Dr (4) Revenue Grants - Other Revenue Grants Cr 3,658 | | |
| Overall impact | £56,037 | £0 | £56,037 |

C. Audit Adjustments

Misclassification and disclosure changes

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

| Disclosure omission | Adjusted? |
|--|-----------|
| The 'Troubled Family Grant' (£1.206m) was incorrectly included within 'Other Revenue Grants'. This was amended to ensure comparability with the prior year disclosure. This is disclosure only within Note 23 and has no impact on the bottom line position. | ✓ |
| A number of amendments were identified from our review of Accounting Policies, including: <ul style="list-style-type: none">The useful life for 'Software licences' is 25 years, we challenged this as it was longer than the expectation for such assets. It was confirmed that the 25 years relates to the SAP system, and additional narrative was added to reflect this specific asset.An amendment was made to define PRU's (Pupil Referral Units) for clarity.The policy for foreign currency translation was removed as this was not applicable to the Council.The terminology 'fixed assets' was updated to 'non current assets' in line with guidance.The policy for Council Tax and Non Domestic Rates was updated to reflect narrative in the CIPFA Code of Practice.A policy was added for overhead and support services reflect narrative in the CIPFA Code of Practice. | ✓ |
| The Depreciated Replacement Cost assets revalued under a desktop exercise were incorrectly excluded from the revaluation table in Note 25. Therefore, the total did not reconcile to the Valuer's report. | ✓ |
| An error has been identified in the exit packages table (Note 20). The £40k-£60k banding incorrectly stated two employees. The correct disclosure should report one employee. This then amends the total of the table to 23 which is in line with the narrative below. | ✓ |
| The audit fees disclosed in note 21 did not reflect the fees proposed in our 2021-22 Audit Plan. These have been updated and a reconciliation can be found in Appendix D. | ✓ |
| The prior year comparative for table 1 in Note 19 Senior Officer Remuneration incorrectly classified an employee into the pay banding. An amendment has been made to include the employee in the £115k-£120k banding which is consistent with The prior year audited Statement of Accounts. | ✓ |
| A small number of minor disclosure updates and typographical changes were identified within the Statement of Accounts | ✓ |

C. Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. The [ABC] 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 |
|---|---|--|--|-------------------------------------|
| As per the findings in relation to Minimum Revenue Provision on page 15, we have estimated that the charge to the General Fund has been understated by £5,000k in year. | | Dr General Fund £5,000 Cr Capital Adjustment Account £5,000 | | Not material and value extrapolated |
| For swimming pool DRC assets the valuer has used BCIS build cost rates for a sports hall and has not been able to provide evidence to support this judgement. The build cost rate for a swimming pool is more than that of a sports hall, therefore the extrapolated understatement of PPE is £4,555k. | Surplus (-) or Deficit on revaluation of non-current assets £(4,555) | Dr Property, Plant and Equipment £4,555 Cr Revaluation Reserve £4,555 | £4,555 | Not material and value extrapolated |
| Our testing of Land and Buildings has revealed that for asset components classed as abnormal, the Council are unable to evidence these assets. The total value of these is 3.143m. This therefore has the potential to overstate the land and buildings. The current valuations are based on the valuers judgement. We would expect these to be revalued in a similar way to other assets using floor areas and building costs. | Surplus (-) or Deficit on revaluation of non-current assets £3,143 | Cr Revaluation Reserve £3,143 Dr Property, Plant and Equipment £3,143 | £(3,143) | Not material |
| Our testing of Land and Buildings identified several floor area discrepancies in the assets sampled. In total the errors identified represents a potential extrapolated error of £57k. | Surplus (-) or Deficit on revaluation of non-current assets £(57) | Dr Property, Plant and Equipment £57 Cr Revaluation Reserve £57 | £57 | Not material and value extrapolated |
| On a number of assets, the valuer was unable to corroborate calculations with supporting evidence. We have raised recommendations for each of these in Appendix A. If all of these areas represented errors, the understatement would be £1,181k. | Surplus (-) or Deficit on revaluation of non-current assets £(1,181) | Dr Property, Plant and Equipment £1,181 Cr Revaluation Reserve £1,181 | £1,181 | Not material and value extrapolated |
| Overall impact | (£2,650) | £0 | £2,650 | |

C. Audit Adjustments

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2020/21 financial statements

| Detail | Comprehensive Income and Expenditure Statement £'000 | Statement of Financial Position £' 000 | Impact on total net expenditure £'000 | Reason for not adjusting |
|---|--|---|--|-------------------------------------|
| Our testing of Land and Buildings identified several floor area discrepancies in the assets sampled. In total the errors identified represents a potential understatement of the asset values of 1,701,794. This value extrapolated comes to a 5,905,742 understatement. | (5,906) | 5,906 | (5,906) | Not material and value extrapolated |
| Our testing of Land and Buildings has revealed that for asset components classed as abnormal, the Council are unable to evidence these assets. The total value of these is 3.143m. This therefore has the potential to overstate the land and buildings. The current valuations are based on the valuers judgement. We would expect these to be revalued in a similar way to other assets using floor areas and building costs. | 3,143 | (3,143) | 3,143 | Not material |
| Our review identified that the depreciation for infrastructure assets is not calculated on a componentised basis, rather the assets are depreciated as a whole. The Code requires that this is calculated at a component level (para 4.1.2.43). In order to satisfy ourselves that the depreciation charge is not materially misstated, we have performed a recalculation. The last time that infrastructure was depreciated on a component level was in 2015-16. We have therefore applied the same apportionment basis to the current year infrastructure assets (as the data is not available) and using the useful lives for each component we have recalculated the depreciation charge. This work has identified a potential understatement of depreciation totalling £8.449m. As depreciation is potentially understated this consequently means that the value of infrastructure assets is overstated by the same amount. | 8,449 | (8,449) | 8,449 | Not material |
| We also noted that the valuer has used building indices as at December 2020. We have compared these to the indices as at 31 March 2021, for our sample of 40 assets, and have noted a potential difference of £2.054m (extrapolated £5.747m) in the overall depreciated replacement cost (DRC) assets as at the balance sheet date. We are therefore satisfied that using the December 2020 indices does not lead to a material misstatement. This potentially understates the asset values. | (5,747) | 5,747 | (5,747) | Not material and value extrapolated |
| Overall impact | (61) | 61 | (61) | |

D. Fees

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

Page 313

| | Proposed fee 2021/22 | Actual Fee 2021/22 |
|--|----------------------|--------------------|
| Scale Fee | £82,902 | £82,902 |
| Additional Fee (as per Audit Plan) | £60,713 | £60,713 |
| Additional Fees agreed for audit overruns | £11,000 | £11,000 |
| Further additional fees due to delays and additional audit enquiries | 0 | TBC |
| Total audit fees (excluding VAT) | £154,615 | £TBC |

| Non-audit fees for other services | Proposed fee | Final fee |
|--|---------------|---------------|
| Audit Related Services: Teachers' Pension Return 2021/22 | £6,000 | £6,000 |
| Total non-audit fees (excluding VAT) | £6,000 | £6,000 |

Audit Fee reconciliation

- fees per financial statements (Note 21) £143,615
- plus addition fees agreed for audit overruns £11,000
- total fees per table £154,615

E. Audit opinion – To follow



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Auditor's Annual Report on Somerset County Council and Somerset Pension Fund

Page 317

2021/22

November 2022





We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



Contents

| Section | Page |
|--|------|
| Executive summary | 3 |
| Opinion on the financial statements and use of auditor's powers | 5 |
| Commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources | 6 |
| Financial sustainability | 7 |
| Improvement recommendations | 16 |
| Governance | 20 |
| Improvement recommendations | 25 |
| Improving economy, efficiency and effectiveness | 27 |
| Improvement recommendations | 31 |
| Pension fund arrangements | 34 |
| Follow-up of previous recommendations | 35 |
| Opinion on the financial statements | 36 |
| Appendices | |
| Appendix A – Responsibilities of the Council | 38 |
| Appendix B – Risks of significant weaknesses, our procedures and findings | 39 |
| Appendix C – An explanatory note on recommendations | 40 |

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 completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Executive summary



Value for money arrangements and key recommendation(s)

Page 319

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Auditors are required to report their commentary on the Council's arrangements under specified criteria and 2021/22 is the second year that we have reported our findings in this way. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our conclusions are summarised in the table below.

During 2021/22 the Council has continued to feel the impact of the pandemic with regards to reductions in income, increasing demand for services, and on the delivery of the capital programme. Despite financial and operational challenges, the Council delivered a £4.1m surplus for the year. The Secretary of State issued his decision to implement the "One Somerset" proposal for local government reorganisation on 21 July 2021. From 1 April 2023 there will be a single tier of local government in Somerset, with the existing four district councils and Somerset County Council merging to form Somerset Council. Increasingly the Council's financial and service planning is now focused on a successful transition to the new authority.

| Criteria | Risk assessment | 2020/21 Auditor Judgment | 2021/22 Auditor Judgment | Direction of travel |
|---|--|---|---|---------------------|
| Financial sustainability | Risk identified with regard to delivery of the financial plan. | No significant weaknesses in arrangements identified, but two improvement recommendations made. | No significant weaknesses in arrangements identified, but four improvement recommendations made. | |
| Governance | Risk identified with regard to arrangements for transition to the new unitary council. | No significant weaknesses in arrangements identified, but one improvement recommendation made. | No significant weaknesses in arrangements identified, but two improvement recommendations made. | |
| Improving economy, efficiency and effectiveness | No risk identified. | No significant weaknesses in arrangements identified, but three improvement recommendations made. | No significant weaknesses in arrangements identified, but three improvement recommendations made. | |

| | |
|--|---|
| | No significant weaknesses in arrangements identified or improvement recommendation made. |
| | No significant weaknesses in arrangements identified, but improvement recommendations made. |
| | Significant weaknesses in arrangements identified and key recommendations made. |

Executive summary



Financial sustainability

Overall we are satisfied that the Council had appropriate arrangements in place to manage the financial resilience risks it faced with regard to budget setting and the medium term financial plan. The Council has a good track record for robust financial management, and delivered a £4.1m surplus for 2021/22. We have carried out additional work to review the arrangements in place to support a successful transition to the new unitary council and to deliver the medium term financial plan. We have not identified any significant weaknesses in arrangements, but have identified opportunities for improvement. Specifically:

- continuing to develop mitigating actions to address the significant budget deficit forecast for 2022/23;
- review the minimum revenue provision charge for 2022/23 in order to ensure that it reflects current guidance and provides a prudent provision on an annual basis;
- working with the four district councils to develop a cash flow model for Somerset Council;
- addressing key 2023/24 budget risks relating to commercial property, capital financing, reserves, and savings.



Governance

We have not identified any areas of significant weakness in the Council's governance arrangements with regard to managing risk, setting ethical standards, internal control and decision making. We have carried out additional work to review the arrangements in place to support a successful transition to the new unitary council. We have made improvement recommendations with regard to:

- developing a risk management process for Somerset Council;
- ensuring adequate resources are allocated to the planning and delivery of service transformation,



Improving economy, efficiency and effectiveness

We have not identified any areas of significant weakness in arrangements with regard to improving economy, efficiency and effectiveness. We have made improvement recommendations that the Council should:

- consider previous external and internal audit recommendations when developing the Procurement Strategy and commissioning arrangements for the new unitary council;
- publish the decision to extend contracts in a timely manner through the contracts register;
- continue to focus on reducing the number and value of procurement breaches and waivers.



Our work is substantially complete and we anticipate to issue an unqualified audit opinion. Our Audit Findings Report summarising our findings will be presented to the Audit Committee on 24 November 2022.



Opinion on the financial statements and use of auditor's powers

We bring the following matters to your attention:

Opinion on the financial statements

Auditors are required to express an opinion on the financial statements that states whether they : (i) present a true and fair view of the Council's financial position, and (ii) have been prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22

Our work is substantially complete and we anticipate to issue an unqualified audit opinion. Our Audit Findings Report summarising our findings will be presented to the Audit Committee on 24 November 2022. Our findings are set out in further detail on page 36.

Statutory recommendations

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly

We did not issue a statutory recommendation.

Public Interest Report

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.

We did not issue a public interest report.

Application to the Court

Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.

We did not apply for an application to the court.

Advisory notice

Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:

- is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure,
- is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or
- is about to enter an item of account, the entry of which is unlawful.

We did not issue an advisory notice.

Judicial review

Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.

We did not apply for judicial review.

Securing economy, efficiency and effectiveness in the Council's use of resources

All Councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:



Financial Sustainability

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



Governance

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



Improving economy, efficiency and effectiveness

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



Our commentary on the Council's arrangements in each of these three areas, is set out on pages 7 to 33. Further detail on how we approached our work is included in Appendix B.



Financial sustainability



We considered how the Council:

- identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

Outturn 2021/22

The 2021/22 General Fund (GF) outturn position was a £4.1m surplus against the £359.6m net budget. Cost pressures within Children's Services relating to external placements and transport for children with special educational needs and disabilities (SEND) were offset by underspends within Economic and Community Infrastructure, reduced corporate financing costs, and the corporate contingency fund.

The surplus was allocated to the General Fund Reserve in order to increase the Council's financial resilience.

The Council incurred capital expenditure of £79.5m against an annual budget of £130.6m, with most of the slippage reprofiled into future years. A number of factors contributed to the capital underspend, including the impact of Covid-19, the complexity of large infrastructure projects, and cost reprofiling as detailed delivery plans were developed. Capital expenditure supported corporate priorities and asset maintenance, with the main areas of spend relating to schools, major highways projects, and the Taunton Digital Innovation Centre.

The outturn position for 2021/22 does not identify any risk of significant weakness in the Council's financial management arrangements, although we have made an improvement recommendation in the Capital Strategy section of this report in relation to minimum revenue provision. The Council's budget monitoring arrangements are robust, and the format of budget monitoring reports was updated during the year to reflect best practice and the requirements of the CIPFA Financial Management Code. Monthly revenue budget monitoring reports were provided to Cabinet, with more detailed quarterly reporting providing a comprehensive overview of the financial position including capital, savings, reserves and treasury management.

Budget 2022/23

The 2022/23 budget reflects the implications of the annual local government funding settlement, incorporating funding from grants such as Revenue Support Grant, Rural Services Delivery Grant, New Homes Bonus and the Social Care Grant. The impact of the funding settlement for 2022/23 is clearly set out within the budget report, along with indicative amounts for future years.

Funding within the budget also includes a 2.99% increase in council tax in accordance with referendum principles, reflecting a 1.99% core increase with a further 1% relating to the adult social care precept.

The Council has a robust organisational approach to setting the annual budget, which is based on corporate priorities. Budgets are built up based on best estimates and forecasts using a zero based approach. A budget template is used to identify additional funding requirements, savings, and additional income, and this ensures consistency in approach across the organisation.

There is good Member engagement during the budget setting process, through Portfolio Holder challenge sessions, Member budget briefings, and review of budget proposals by the Scrutiny Committee.

Financial sustainability

Revenue monitoring identifies significant pressures for the 2022/23 budget, particularly within Adult's Services due to increased demand for residential and nursing placements, and within Children's Services due to external placements. Rapidly increasing inflation is also having a significant impact upon the Council's budget, a theme common across all public sector organisations.

An action plan to address the potential overspend was set out in the Month 3 Budget Monitoring Report, including Director challenge sessions, vacancy control, reduction of discretionary spend, and a focus on the variances in Adults and Children's Services. The forecast overspend reported at Month 4 was £23.9m, with the Month 5 position showing a slightly improved position of £22m following implementation of the action plan.

We have made an improvement recommendation that the Council should continue to develop and implement mitigating actions to address the significant budget deficit forecast for 2022/23. This is particularly important to ensure that the new Somerset Council has sufficient reserves to mitigate financial risk and fund transformation from 1 April 2023.

Medium term financial plan (MTFP)

Financial planning across local government is made more difficult due to the uncertainty created from annual finance settlements and the delay to funding reforms such as the fair funding review, social care reform and the business rate reset. Despite this uncertainty, our review of the Council's financial planning process indicates that it is based on realistic assumptions and arrangements are robust.

Financial planning assumptions are set out and updated through the Medium Term Financial Strategy and Plan Reports considered by Members in October 2021, January 2022 and February 2022 as part of the budget setting process. Assumptions include treatment of key expenditure drivers such as the pay award, inflation, and demographic and demand changes which are particularly acute in Adult's and Children's Services. The level of inflation currently experienced within the 2022/23 budget would have been difficult to predict, but demonstrates the value of sensitivity analysis for key budget assumptions.

Medium term financial planning includes assumptions for key funding streams, such as the cessation of New Homes Bonus, and freezes to other grants such as the Social Care Grant, Service Grant and Rural Service Delivery Grant from 2023/24. Forecasts assume no increase to the Better Care Fund or Public Health Grant.

Financial planning recognises the uncertainty and risk associated with government funding, with the fair funding review and business rate reset now expected to be delayed beyond 2023/24.

The Council has a good track record of delivering planned savings, with £5.6m of savings delivered in 2021/22 against a target of £7m, and £7.5m of savings delivered in 2020/21 compared to the £8.9m target. Achievement of planned savings is monitored and reported through the detailed quarterly budget reports. The 2022/23 budget includes £5m of savings, with £0.8m achieved and £3m on track as at the end of Month 3 (June 2022). Directors are expected to ensure that services deliver on the savings put forward in the MTFP, or find alternative savings proposals to offset them.

Local government reorganisation (LGR) in Somerset, with the creation of Somerset Council on 1 April 2023, is the strategic response to protecting services and providing financial sustainability over the medium term. The business case for the One Somerset proposal was approved by the Secretary of State and identified that recurring annual savings of £18.5m could be delivered, based on one-off implementation costs of £16.5m. Financial planning has now switched focus from balancing the budget gaps of individual sovereign councils, to identifying the budget gap for the new unitary council and addressing this through LGR and transformation savings.

The Medium Term Financial Plan and Budget 2022/23 Report, approved by Council in February 2022, provided the first estimate of the budget gap facing Somerset Council by amalgamating the position for the five existing Councils. This identified a budget gap of £28.5m for 2023/24. This position was updated through the Medium Term Financial Strategy and Plan 2023/24 – 2027/28 considered by Executive in July 2022. This update identified a £44.5m gap due to the impact of inflation on budgets during 2022/23.

A further MTFP update was provided to Executive in November 2022, following detailed work on the budget being carried out. The revised budget gap for 2023/24 was forecast at £74.2m. This reduces to a net gap of £38.2m after taking into account £27.8m of identified savings and an assumption that the cost of social care reform will be fully funded (£8.2m).

The July Medium Term Financial Plan set out the approach to developing a balanced budget for 2023/24, which includes the potential use of reserves to smooth budgets while LGR savings are delivered, and a review of all existing council's 2021/22 outturn positions to

Financial sustainability

Page 325

build in any permanent underspends. The report sets out a framework for developing options to balance the budget, including efficiency savings, service level reviews, alternative service delivery, and income generation.

| Somerset Council: Medium Term Financial Plan Position 2023/24 | |
|---|---------------|
| | Budget Gap £m |
| Position as at February 2022: | |
| Mendip DC | 1.9 |
| Sedgemoor DC | 2.8 |
| South Somerset DC | 4.5 |
| Somerset West and Taunton Council | 5.2 |
| Somerset County Council | 14.2 |
| Total Budget Gap February 2022: | 28.6 |
| July MTFP Updates: | |
| Somerset County Council Month 2 | 14.4 |
| Assumed inflation for Districts | 1.5 |
| Total Budget Gap July MTFP: | 44.5 |
| November MTFP Updates: | |
| Increase in budget gap following detailed work | 29.7 |
| Total Budget Gap November MTFP: | 74.2 |
| November MTFP Updates: | |
| Savings and income generation proposals | (27.8) |
| Fair cost of care fully funded | (8.2) |
| Net Budget Gap November MTFP: | 38.2 |

The November 2022 MTFP update recognises that the strategy of using reserves in the short term and the delivery of savings relating to LGR are not going to be sufficient to balance the 2023/24 budget. Members were asked to endorse further action, including discussions with the Government regarding a potential capitalisation directive to fund revenue costs, identifying service cuts, and reviewing the capital programme, in order to close the budget gap.

We identified financial sustainability and delivery of the financial plan as a risk of significant weakness in the External Audit Plan 2021/22. From our review of the assumptions within the 2022/23 budget and medium term financial planning to November 2022, we are satisfied that the Council has robust financial planning processes in place and that planning is based on reasonable assumptions.

As LGR is the primary mechanism for delivering financial sustainability in the medium term, we have carried out further detailed work on the arrangements and progress for setting the 2023/24 budget for Somerset Council. This is reported separately in the Budget Setting Arrangements 2023/24 section of this Auditor's Annual Report.

Dedicated schools grant

Somerset County Council had a cumulative deficit on the dedicated schools grant of £20.1m as at 31 March 2022, which is projected to increase by a further £5.9m during 2022/23.

The Council has a deficit management plan which has been approved by the Schools Forum and submitted to the Education and Skills Funding Agency. Priorities for addressing the deficit include reducing the subsidy for schools commissioning non-statutory SEND support, and early intervention to ensure the sufficiency of special educational provision. A key element to reduce the deficit is the provision of 436 additional special school places delivered through the capital programme.

Key performance indicators, goals and milestones are identified to measure the impact of the plan, which aims to have reduced the in-year deficit by 2023/24. Progress has however been slowed by delays in the building of a free school by the Department for Education due to the impact of the pandemic, and through an inadequate Ofsted rating for a school that was part of the expansion programme.

Financial sustainability

The Council is working with the Department for Education through the Delivering Better Value in SEND Programme that provides dedicated support and funding to authorities with substantial deficit issues. Work is also underway with an external consultant to strengthen early intervention and improve information on key demand, cost and performance metrics.

Therefore the Council can demonstrate that it has adequate arrangements in place to address the annual deficit on the dedicated schools grant.

Capital strategy and treasury management

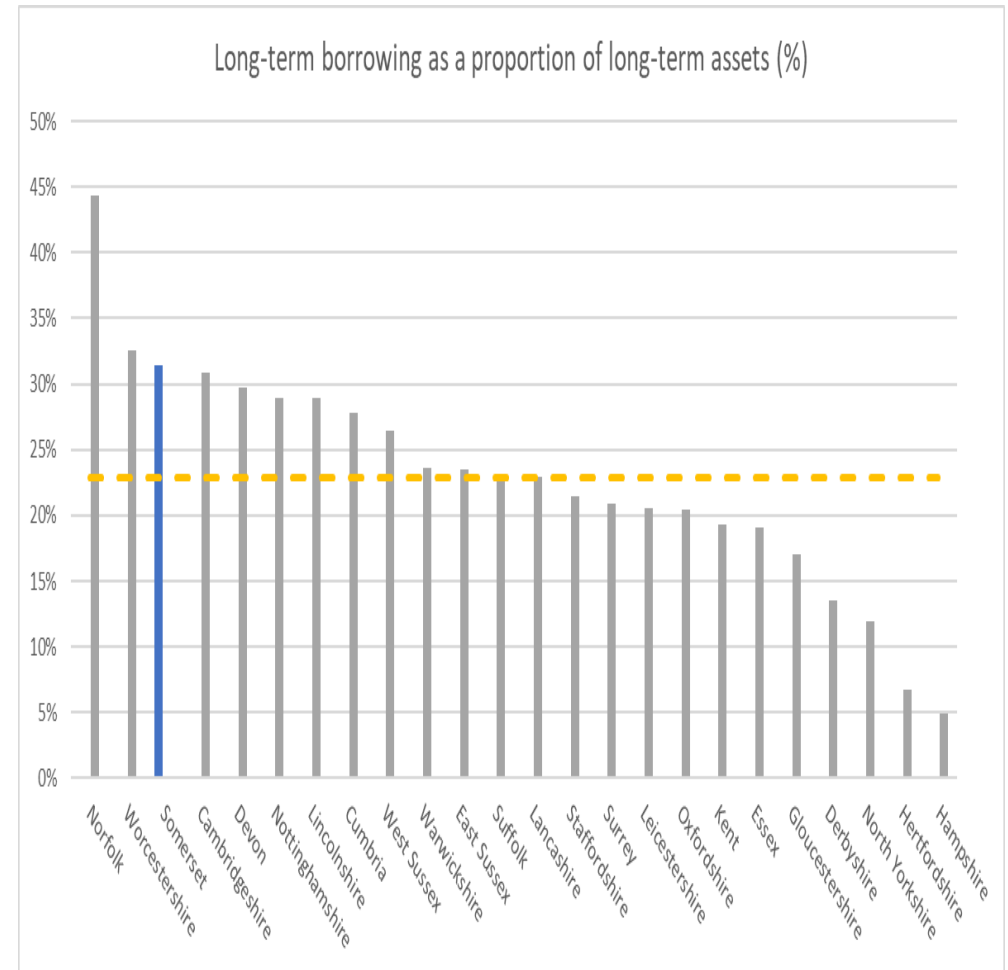
In February 2022 the Council approved a total capital programme of £180.3m for the period to 2025/26, of which 44% (£79m) is funded from borrowing. The Council's capital financing requirement has increased significantly in recent years, from £366.1m as at 31 March 2018 to £471.8m by 31 March 2022, reflecting the amount of historic capital expenditure that has been funded through borrowing.

Somerset County Council has high levels of debt in comparison to other county council peers, ranking 3rd for borrowing as a proportion of long term assets as demonstrated by the graph opposite. It is important that the capital financing requirement and corresponding debt levels are managed to ensure they remain affordable, particularly as interest rates are rising.

The Council recognises that the affordability of the capital programme is a risk to financial performance and keeps the programme and funding position under review. Monthly revenue monitoring reports include a commentary on the impact of the capital programme on borrowing costs. The capital programme is currently being examined to identify schemes that can be paused or reprofiled in response to the adverse revenue forecast for 2022/23 and in preparation for local government reorganisation.

The capital programme, financing and costs is recognised as a key area in the construction of the budget for the new unitary council, and is further considered in the Budget Setting Arrangements 2023/24 section of this Auditor's Annual Report.

The annual budget and medium term financial planning reflect the Council's current assumptions for financing costs associated with borrowing. Interest costs are forecast to be £16.1m, and principal repayments £6.8m by 2024/25.



Financial sustainability

Page 327

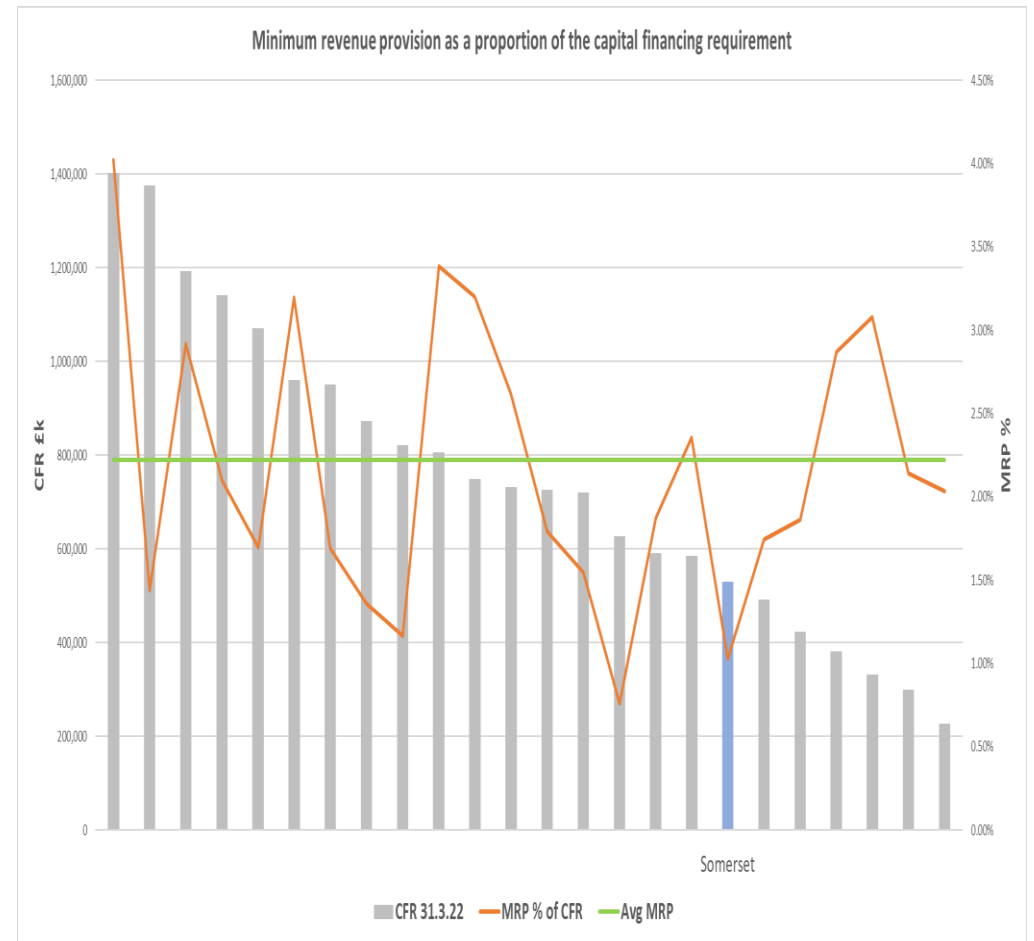
The Council provided for £4.4m of MRP in 2021/22 against a CFR of £471.8m. This represents 0.9% revenue provision compared to an average of 2.2% for all county councils. This is demonstrated in the graph opposite, which shows that Somerset County Council has the second lowest MRP charge as a proportion of its CFR in comparison to other county councils.

The Statutory Guidance on Minimum Revenue Provision confirms that useful asset lives, which are used in order to calculate a prudent MRP charge, should not normally exceed 50 years. This would equate to an MRP charge of 2% of the CFR and is in line with the average charge for all county councils shown in the graph. Somerset County Council's MRP charge of 0.9% of the CFR represents an average useful asset life closer to 111 years. In our view this is not a prudent MRP charge and is not calculated on the basis of the period the underlying assets are likely to provide service benefits to the Council.

Based on a 2% MRP charge on the Council's CFR, we have extrapolated that prudent MRP would be in the region of £9.4m, and so the Council is underproviding MRP by an estimated £5m for 2021/22. We understand that the Council is reviewing the MRP Policy for 2023/24 as part of the transition to the new unitary authority. We have made an improvement recommendation that the Council should also review the MRP charge for 2022/23 in order to ensure that the CFR is financed over a prudent period.

Somerset County Council utilises its treasury management software to manage cash flow, and we are not aware that any liquidity issues were experienced for 2021/22. We have made an improvement recommendation that in preparation for vesting day for the new unitary council, and once the development of the 2023/24 budgets is sufficiently progressed, Somerset County Council should work with the four district councils to develop a cash flow model for Somerset Council. This will ensure that sufficient liquidity is available from vesting day to provide services and make revenue and capital payments.

We have not found any significant weaknesses in the Council's arrangements for managing the capital strategy and treasury management, but have identified an improvement recommendation to ensure that the MRP charge is calculated on a prudent basis.



Financial sustainability

Reserves and risk mitigation

Risks are clearly set out within financial reports. The Medium Term Financial Plan and Budget 2022/23 Report contains the Chief Finance Officer's (CFO) report on the robustness of the budget and the adequacy of reserves. The narrative is comprehensive and confirms the budget process, sources of assurance and the main financial risks within the budget, including Covid-19, inflation, and government policy changes. The high levels of inflation currently experienced by all public services demonstrates the need to identify such risks within the budget and ensure mitigation measures are identified.

As part of the budget process each Director completes a statement which outlines their confidence levels in the budget and in the delivery of transformation, savings and income generation proposals. These form a corporate wide assessment of financial risk within the budget which informs the calculation for the minimum prudent level of GF balances.

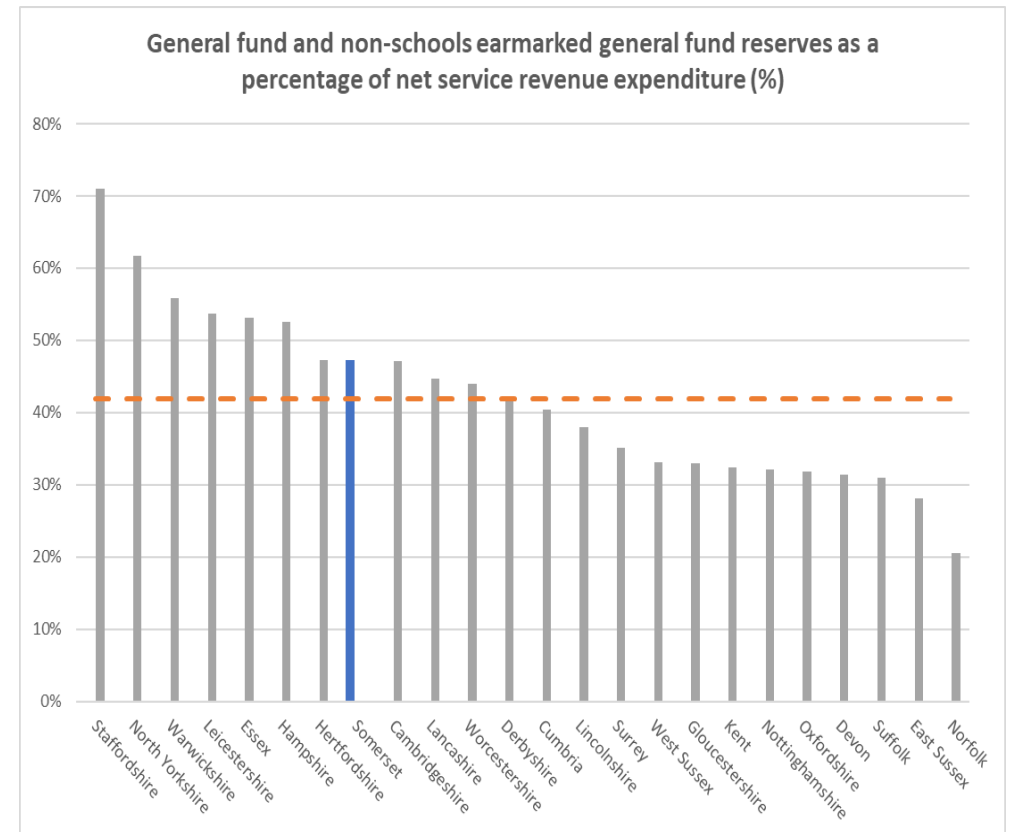
The prudent range of GF balances calculated as part of the 2022/23 budget process is between £20m - £30m. The actual level of GF reserves as at 31 March 2022 was £27.1m, an increase of £4.1m during the year. This represents 7% of the net budget for 2022/23 and so is within the CIPFA benchmark of 5%-10%.

The Council also has other earmarked reserves that increase financial resilience. Earmarked resilience reserves increased by £12.2m during 2021/22, totalling £44.9m at 31 March 2022. Resilience reserves include the Funding Volatility Reserve and Budget Equalisation Reserve.

The Council has improved its reserve position over recent years as underspends against the annual budget have been delivered, and this reflects stronger financial management resulting in improved financial resilience. SCC held earmarked reserves of £97.1m at 1 April 2021, increasing to £159.1m as at 31 March 2022. Using data from the 2021/22 statement of accounts, the total level of GF and earmarked reserves that SCC holds as a proportion of the net cost of services in comparison to other county councils demonstrates that the Council is not an outlier, and at 47% is above the average of 42%.

The revenue budget for 2022/23 also includes a £6m contingency which reflects the level of risk associated with the budget, some of which is likely to be utilised for the higher pay award offer than was forecast in the budget.

From our work we have found that the Council has adequate arrangements in place to mitigate risk, and reserve balances are increasing. As previously noted, we have made an improvement recommendation that the Council should continue to manage the significant budget deficit forecast for 2022/23 in order to ensure that the new Somerset Council has sufficient reserves to mitigate financial risk and fund transformation from 1 April 2023.



Financial sustainability

Local government reorganisation – budget setting arrangements 2023/24

We identified in the External Audit Plan 2021/22 that there is a risk of significant weakness with regards to the arrangements in place to support a successful transition to the new unitary council and also in relation to the delivery of the financial plan. In response to these risks we have undertaken additional work to assess the progress made across key financial LGR workstreams.

The LGR risk register recognises the budget gap for Somerset Council in 2023/24 as one of the highest risks to the LGR programme. The budget gap for the first year of the new Council's existence is forecast at £74.2m in the November 2022 MTFP update. This reduces to a net gap of £38.2m after taking into account £27.8m of identified savings and an assumption that the cost of social care reform will be fully funded (£8.2m).

There is a robust process in place for delivering a balanced budget for 2023/24. The financial standing of the new council has been a key focus since the decision from the Secretary of State to implement LGR in July 2021. As part of the 2022/23 budget process, existing councils in Somerset agreed a voluntary Finance and Assets Protocol to ensure that legacy council decisions did not have an adverse impact on Somerset Council and that new financial commitments over agreed thresholds would not be entered into.

In February 2022 the LGR Joint Committee considered the impact of key elements of the existing councils' 2022/23 budget proposals on Somerset Council. Key areas include revenue and capital budgets, reserves, commercial investments and treasury management.

Executive approved the Somerset Council MTFP in July 2022. This set out the high level strategy for delivering a balanced budget, including efficiency savings, reviewing service levels, alternative service delivery, asset management and income generation.

Work is well underway to refine the budget for 2023/24 through reviewing the staffing establishment, developing savings proposals, reviewing borrowing costs, and deep dives into services with significant cost pressures such as Children's and Adult's Services. Executive away days are programmed into the budget process to review budget issues and gain consensus on potential areas to achieve savings. These ensure that Members of the continuing authority have a good understanding of the financial challenge. A Member

Budget Working Group has been created to consider specific areas of the budget, including service budgets, the capital programme and office rationalisation.

We have identified the following elements of good practice that support the 2023/24 budget setting process:

- Member engagement through Executive away days and the Budget Working Group;
- weekly budget briefings for the Executive and Senior Leadership Team;
- three full Member briefings planned for key stages during the 2023/24 budget process;
- monitoring and reporting of implementation costs against the business case;
- template developed to map 2022/23 service budgets from the existing five councils into a 2023/24 base budget for Somerset Council;
- services have been asked to develop savings plans to achieve 5%, 10% and 20% efficiency targets.

The Council will be required to approve a balanced 2023/24 budget for the new Somerset Council in February 2023. Although robust budget setting arrangements are in place, the challenge to set a balanced budget for the first year of Somerset Council is significant. From our work and discussion with key officers, we have identified several key budget risks that relate to the scale of the commercial property portfolio, the size of the capital programme, the capital financing requirement, reserves, and the level of savings required.

Somerset Council will inherit a £280m commercial property portfolio that generates gross income of £20m from the four district councils. Much of the portfolio is funded from short term debt which creates a financing risk in the current environment where interest rates are rising. In developing the 2023/24 budget and associated Treasury Management and Investment Strategies, Somerset Council's appetite for risk should be determined, including which commercial assets the Council wishes to retain. The approach to financing commercial assets and mechanisms for mitigating risk if commercial returns are less than planned should also be determined. The new authority should ensure it complies with the CIPFA Prudential Code, which confirms that capital investment purely for yield is not prudent activity, and requires councils with a capital financing requirement to review options for exiting commercial investments.

Financial sustainability

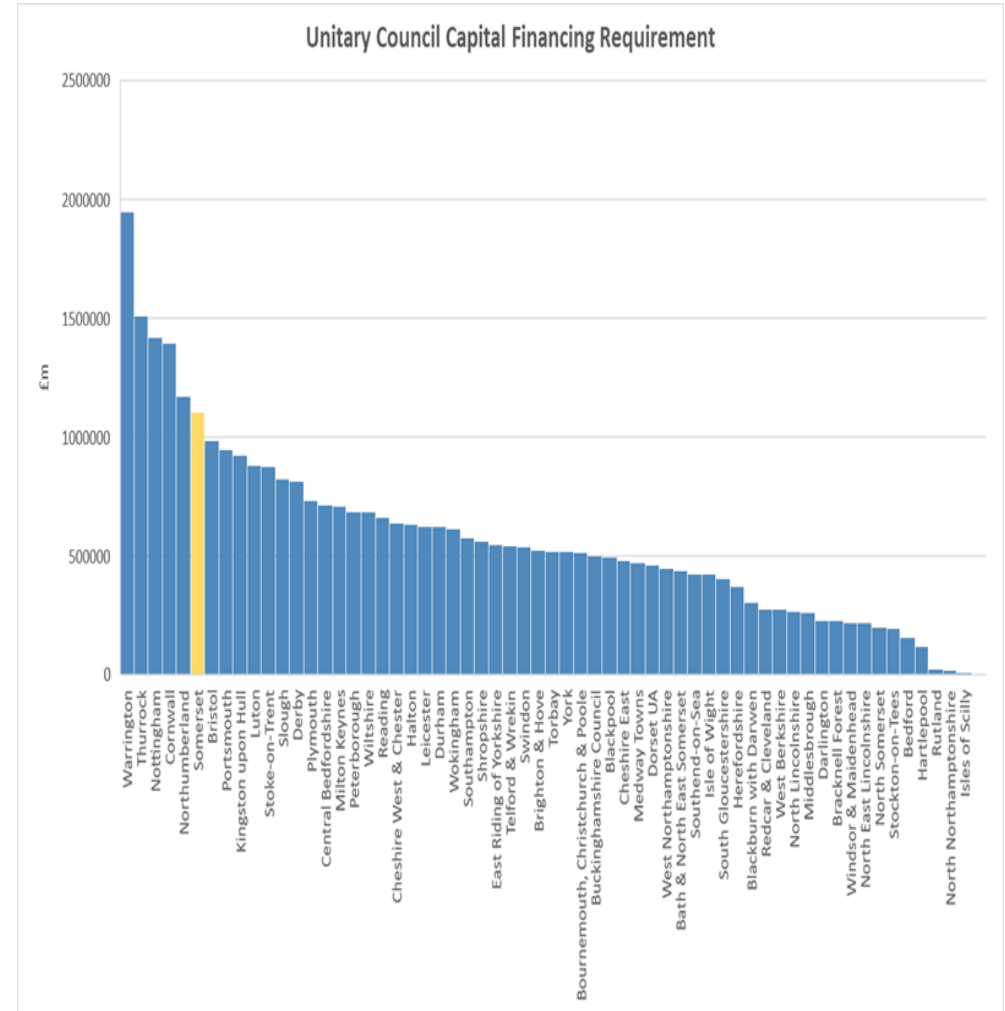
Page 330

Somerset Council will also inherit a significant capital financing requirement (CFR) from the five predecessor authorities. Analysis of the CIPFA capital estimate returns for 2021/22 shows that Somerset Council would have a combined CFR of £1.1bn as at 31 March 2022.

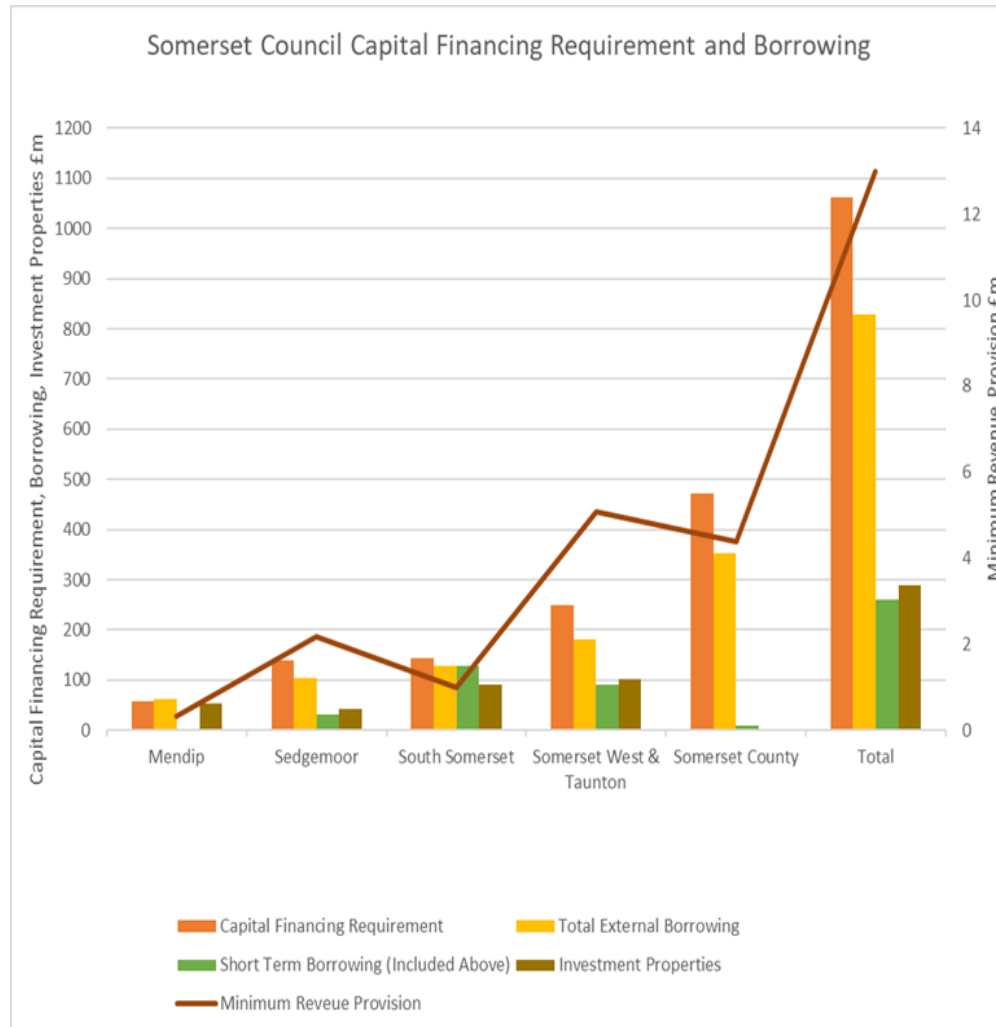
This would be the sixth highest CFR in England when compared to all other unitary authorities as demonstrated in the graph overleaf. The external debt levels associated with this CFR are approximately £780m, with significant amounts of short term debt that will need refinancing over the next three years. Associated interest costs are estimated at £31m per annum, with MRP charges of £13m.

Therefore a key element to setting a balanced and sustainable budget for Somerset Council will be to agree a borrowing strategy that manages the risk of rising interest rates and ensures that the cost of borrowing is affordable, while MRP remains prudent. Using data from the draft 2021/22 accounts, the combined impact of amalgamating the CFR, borrowing and commercial property portfolio of the five predecessor councils is demonstrated in the graph on page 15.

Ensuring the affordability of borrowing is also dependent on the size of the ongoing capital programme. The combined capital programme of the five legacy councils is approximately £405m and requires £154m of borrowing to fund expenditure, which will further increase Somerset Council's CFR. Increasing costs on capital works due to supply chain issues, inflation, increasing demand and rising interest rates creates a financial risk that capital budgets previously approved will not be sufficient. Work is underway to review the combined capital programme to identify schemes that could be stopped or paused to mitigate financial risk.



Financial sustainability



Having sufficient levels of useable reserves will be critical to the financial sustainability of Somerset Council. Reserves may be required to fund ongoing transformation costs in order to achieve the savings required to balance the budget gap identified in the MTFP. It is possible that reserves will need to be used to balance annual budgets in the short term while ongoing savings are delivered. Reserves should only be used to fund short term budget gaps when there is a robust savings plan supported by a business case to deliver financial sustainability.

Therefore a reserves strategy should be approved which identifies and earmarks the level of reserves required for transformation and to smooth budget gaps, while maintaining an adequate General Fund balance to mitigate budget risk. In order to protect the level of reserves available to Somerset Council, sovereign councils should implement actions to reduce in-year budget overspends during 2022/23, currently estimated at £23.6m in total.

Due to the scale of the budget gap identified for 2023/24, the November 2022 MTFP update acknowledges that additional savings will need to be identified that are not part of the LGR programme or transformation. Additional actions are identified to balance the budget, which include the identification of service reductions. Work should be undertaken to identify potential areas for service efficiency that can be implemented within a short timescale in order to balance the 2023/24 budget.

In conclusion, we have identified that there is a robust process in place for delivering a balanced budget for 2023/24, but the scale of savings required to achieve a balanced position for the first year of Somerset Council represents a significant challenge. We have made an improvement recommendation that as part of the budget process for 2023/24, the following key budget risks should be addressed:

- continue progress in identifying potential service efficiencies that are not part of the LGR programme;
- determining the approach for holding, financing and mitigating the risk relating to commercial property investments;
- managing the capital financing requirement and approving a borrowing strategy that ensures the affordability of borrowing;
- reviewing the future capital programme to manage financial risk with regards to scheme cost and associated borrowing costs; and
- ensuring the level of reserves is adequate to fund transformation and mitigate risk.

Improvement recommendations



Financial sustainability

Recommendation 1

The Council should continue to develop and implement mitigating actions to address the significant budget deficit forecast for 2022/23.

Why/impact

Reducing the overspend and protecting reserves is particularly important to ensure that the new Somerset Council has sufficient reserves to mitigate financial risk and fund transformation from 1 April 2023.

Summary findings

Revenue monitoring identifies significant pressures to the 2022/23 budget, particularly within Adult's Services due to increased demand for residential and nursing placements, and within Children's Services due to external placements. Rapidly increasing inflation is also having a significant impact upon the Council's budget. An action plan to address the potential overspend was set out in the Month 3 Budget Monitoring Report.

The forecast overspend reported at Month 5 was £22m.

Management Comments

The Council will develop and implement mitigating actions to address the budget deficit forecasted for 2022/23.



The range of recommendations that external auditors can make is explained in Appendix C

Improvement recommendations



Financial sustainability

Recommendation 2

the Council should review the minimum revenue provision charge for 2022/23 in order to ensure that it reflects current guidance and provides a prudent provision on an annual basis.

Why/impact

Based on a 2% MRP charge on the Council's CFR, we have extrapolated that prudent MRP would be in the region of £9.4m, and so the Council is underproviding MRP by an estimated £5m for 2021/22.

Summary findings

The Council provided for £4.4m of MRP in 2021/22 against a CFR of £471.8m. This represents 0.9% revenue provision compared to an average of 2.2% for all county councils.

The Statutory Guidance on Minimum Revenue Provision confirms that useful asset lives, which are used in order to calculate a prudent MRP charge, should not normally exceed 50 years. This would equate to an MRP charge of 2% of the CFR. Somerset County Council's MRP charge of 0.9% of the CFR represents an average useful asset life closer to 111 years. In our view this is not a prudent MRP charge and is not calculated on the basis of the period the underlying assets are likely to provide service benefits to the Council.

Management Comments

The Council will review the MRP charge for 2022/23. A new MRP policy from 2023/24 is being considered.



The range of recommendations that external auditors can make is explained in Appendix C

Improvement recommendations



Financial sustainability

Recommendation 3

Somerset County Council should work with the four district councils to develop a cash flow model for Somerset Council.

Why/impact

Developing a cash flow model for the new council will ensure that sufficient liquidity is available from vesting day to provide services and make revenue and capital payments.

Summary findings

Somerset County Council utilises its treasury management software to manage cash flow. Once the development of the 2023/24 budgets for Somerset Council is sufficiently progressed, a cash flow model should be developed for the new unitary council.

Management Comments

The Treasury Management Workstream will be reviewing the current 5 authorities cash flow forecasts to build a model for Somerset Council before vesting day.



The range of recommendations that external auditors can make is explained in Appendix C

Improvement recommendations



Financial sustainability

Recommendation 4

As part of the budget process for 2023/24 the following key budget risks should be addressed:

- continue progress in identifying potential service efficiencies that are not part of the LGR programme;
- determining the approach for holding, financing and mitigating the risk relating to commercial property investments;
- managing the capital financing requirement and setting a borrowing strategy that ensures the affordability of borrowing;
- reviewing the future capital programme to manage financial risk with regards to scheme cost and associated borrowing costs; and
- ensuring the level of reserves is adequate to fund transformation and mitigate risk.

Why/impact

Somerset County Council will be required to set a balanced budget for the new authority in February 2023. The ongoing provision of services will depend on the financial sustainability of the new council.

Summary findings

The challenge to set a balanced budget for the first year of Somerset Council is significant, with a savings target of £44.5m identified. We have identified several key budget key risks that relate to the scale of the commercial property portfolio, the size of the capital programme, the capital financing requirement, reserves, and the level of savings required.

Management Comments

The Council will consider the risks identified above as part of the 2023/24 budget process.



The range of recommendations that external auditors can make is explained in Appendix C.

Governance



We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effective processes and systems are in place to ensure budgetary control; communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and board member behaviour (such as gifts and hospitality or declaration/conflicts of interests) and where it procures and commissions services.

Risk management

The Council has a Risk Management Pathway in place that includes the Risk Management Strategy, Policy and Process. These pathways set out the corporate approach to risk management, roles and responsibilities, and provide guidance on the identification, assessment and monitoring of risk.

The Strategic Risk Management Group meets monthly, chaired by a Corporate Director and has attendees from risk management functions from across the council, along with representatives from services. The Group has an assurance role in establishing compliance with the Risk Management Strategy and escalates risks that are beyond approved tolerances to the Senior Leadership Team for management action. The Strategic Risk Management Group review at least two strategic risks at each monthly meeting.

The Audit Committee receives Risk Management Update Reports twice a year. These updates include the strategic risk register which contains most of the areas of best practice we would expect. This includes risk description, cause, consequence, RAG-rated risk scores, review dates, risk owner and control measures. Only strategic risks are reported, with the January 2022 risk register focusing on seven risks, thus allowing for detailed consideration of key risks by the Audit Committee. We note however that the risks within the risk register are not mapped to corporate priorities.

Internal audit carried out a follow up review of risk management in 2021/22, in response to the limited assurance opinion provided for the 2019/20 audit. Several actions were still not complete, including setting a risk appetite, ensuring consistency in recording risk, training, and timely review of operational risk. It was determined that a full audit of risk management was required as part of a larger review of the arrangements at all Somerset councils in preparation for LGR.

From our work we have not identified any significant weaknesses in the Council's risk management arrangements. We have made an improvement recommendation that as part of the work to transition to the new unitary council, a risk management process should be developed that addresses the recommendations made by internal audit. The risks within the unitary council strategic risk register should also be mapped to corporate priorities to ensure that their impact on achieving these priorities is understood.

Internal audit and internal control

The Council has an effective internal audit function that is delivered through the South West Audit Partnership (SWAP). The Audit Committee approve the annual internal audit plan which is based on a risk assessment and is linked to corporate objectives, while ensuring that key financial systems are also reviewed. The Audit Committee receive internal audit updates at each meeting which provide a summary of performance against the plan and additional detail where limited assurance opinions are provided.

Governance

Internal audit completed 98% of the 2021/22 audit plan to final, draft or discussion reporting stage, and provided a reasonable assurance annual audit opinion for the year.

During 2021/22 the Council appointed an independent Member to the Audit Committee in response to CIPFA guidance and recommendations from the Redmond Review of local audit. As part of establishing the democratic arrangements for the new unitary Council, we understand that consideration will be given to the need for two independent Members of the Audit Committee. From our attendance at Audit Committee we have observed a good level of challenge that demonstrates an effective Committee is in place.

Adequate arrangements are in place for the prevention and detection of fraud and corruption. The Audit Committee undertook the annual review of the Council's Anti-Fraud and Corruption Policy and associated policies in July 2021. The Council also has a Whistle Blowing Policy which is available on the website and details how to raise concerns around fraud and how the Council will respond.

Review of the Annual Governance Statement (AGS) 2021/22 does not highlight any significant weaknesses in governance arrangements. Progress is noted against 2020/21 actions with regard to financial planning, local government reorganisation, Covid-19 and the integrated care system. Progress noted in the AGS is in accordance with our understanding from the work we have undertaken. We acknowledge that the Council has a good approach to identifying where improvements to arrangements are required, and is open and transparent in reporting these. Issues to address in 2022/23 relate to:

- development of a balanced budget for 2023/24;
- local government reorganisation;
- Covid-19 recovery, addressing health and social inequalities;
- development of the integrated care system;
- SEND improvement plan;
- organisational capacity and resilience.

Our value for money work has not identified any risk of significant weakness in these areas. We have identified improvement recommendations following our detailed review of the

budget setting arrangements for 2023/24, and the governance arrangements for the transition to the new unitary council.

We have not identified any risk of significant weakness with regard to arrangements for internal audit and internal control. The Council has appropriate arrangements in place.

Informed decision making and compliance with regulatory standards

Arrangements are in place to ensure that relevant information is provided to decision makers before major decisions are made. These arrangements include:

- reports to Council and Cabinet require sign off from the relevant finance, legal and service officers before they are considered by Members;
- Scrutiny Committees provide for challenge on decisions, policies and performance during the year;
- the Constitution includes the principles of decision making and the rules, codes and protocols that govern how the Council operates, including Financial Regulations and the Scheme of Delegation;
- the Constitution sets out the functions of the statutory posts of Head of Paid Service, Monitoring Officer and the Section 151 Officer, including providing advice to Members on staff management, financial, legal and ethical governance issues; and
- Member budget briefings are held to provide assurance on the budget and ensure sufficient information is provided to enable an informed decision to be made;

The Council approved the revised Members Code of Conduct in February 2022 for incorporation into the Constitution after the May 2022 elections. The Code was reviewed as part of the LGR governance workstream in collaboration with the four district councils, with the districts also adopting the revised Code to ensure alignment during the transition to the new authority.

The Council also maintains Registers of Interest and Registers of Gifts and Hospitality for both Members and Officers.

The Governance Board tracked actions against the Healthy Organisation Governance

Governance

Scorecard during 2021/22. The Healthy Organisation review framework assesses nine corporate themes, including governance, finance, risk, performance and commissioning.

In carrying out our work and through discussions with senior officers we are not aware of any instances of decision making that is unlawful or of non-compliance with the Constitution or regulatory standards.

We have not found any significant weaknesses in the arrangements in place to ensure informed decision making or compliance with regulatory standards.

Local government reorganisation – governance arrangements

We identified in the External Audit Plan 2021/22 that there is a risk of significant weakness with regards to the arrangements in place to support a successful transition to the new Somerset Council on 1 April 2023. In response to this risk we have undertaken additional work to assess the programme's governance arrangements.

Governance structures to manage and oversee the LGR programme were established following the decision of the Secretary of State in July 2021, and have adapted as the LGR programme developed. Arrangements are in place to support democratic decision making and ensure adequate Member oversight. Initially an LGR Joint Committee was established as a collaborative committee to oversee the LGR implementation plan, with membership including the Leaders of all five sovereign councils in Somerset. Following the Structural Changes Order, the Joint Committee was replaced by the LGR Implementation Executive that maintained the same membership, and was created to ensure the efficient and timely transition to the new council.

As Somerset County Council (SCC) is the continuing authority, since the May 2022 elections the SCC Executive became the decision making Member body responsible for the implementation of local government reorganisation. In order to maintain a collaborative approach and appropriate Member oversight, the SCC Executive is supported by the Implementation Board made up of the Leaders or relevant portfolio holders from the four districts and five SCC Members, including the Leader and Leader of the Opposition. The Implementation Board oversees and reviews the implementation plan and provides advice and recommendations to Executive as appropriate. The Implementation Board meets regularly to review programme update reports, the risk register and assurance reports from

PwC.

There are additional layers of governance in place. The LGR Programme Board includes the Chief Executives from the existing five councils and the SCC S151 Officer and Monitoring Officer, and reports to the Implementation Board. The Programme Board makes decisions relating to the six LGR workstreams, who are supported by a Programme Steering Group and Programme Management Office (PMO).

There is a detailed Implementation Plan that sets out the strategic objectives and key deliverables of the programme. There are three phases to the plan, with products essential to be delivered to achieve a safe and legal vesting day (T1), products that are desirable for vesting day (T2), and products to be delivered as part of transformation post vesting day (T3).

To ensure that the delivery of products and milestones is kept on track, the PMO maintains a detailed Programme Plan which combines all workstream plans. The PMO makes good use of SharePoint to provide real time monitoring of workstream delivery, and to create monthly progress reports and scorecards for the Programme and Implementation Boards. The PMO monitors workstream progress on a weekly basis and maintains an 8-week rolling plan to identify T1 products that are due for delivery. This allows for the early identification of, and mitigation for, delays to the plan.

The reliance on workstreams to deliver LGR products is a decentralised approach, which encourages collaboration, but which risks inconsistency between workstreams and inconsistency of reporting. This risk is recognised within the LGR programme and is mitigated through the weekly workstream monitoring by the PMO, monthly quality assurance sessions, change control processes, and the assignment of project managers to each workstream.

The LGR programme has good governance arrangements in place that allow for effective monitoring, timely reporting and the identification and management of risk to programme delivery. Arrangements also support a collaborative approach. Our work has identified the following examples of strong governance arrangements and good practice:

- Member oversight from all existing councils through the Implementation Board;
- LGR Joint Scrutiny Committee comprising Members from all Somerset councils;

Governance

- tiered programme governance structure allowing for escalation of decisions as required;
- county and district council workstream leads for each of the six LGR workstreams;
- a strong PMO providing project management and detailed monitoring for individual workstreams within the programme;
- arrangements in place to identify, report and mitigate risks through the LGR programme risk register which is reported to the Implementation and Programme Boards, LGR Joint Scrutiny Committee and the SCC Audit Committee;
- change control process to ensure changes to product target dates, scope, cost or benefits are agreed with the PMO;
- independent assurance provided on implementation progress, through PwC for the LGR programme and Socitm for MS Dynamics; and
- review of the governance arrangements to ensure that they remain fit for purpose and that the resources within the Programme Steering Group are best utilised.

The status of programme delivery as reported in the September Programme Update is an overall RAG rating of Amber due to some slippage and resource pressures in key areas. At that point it was reported that out of 277 T1 and T2 products, there were eight deemed at risk or off track. From discussions with officers we understand that the current position is that there are only two T1 products currently at risk. These relate to the recruitment protocol and costed service structures, and would not have a material impact on vesting day.

The greatest risks to the LGR programme identified in the risk register relate to the budget gap for 2023/24 and the loss of staff deemed essential to programme delivery. The arrangements for setting a balance budget for 2023/24 are considered in the Financial Sustainability section of this report.

Risks relating to availability of officer resources to deliver the programme are managed through the Recruitment and Mutual Aid Protocols, approved through the Implementation Plan. These seek to promote collaboration and manage resources to reduce potential redundancy costs, but also ensure individual councils have the capacity to deliver LGR. Staff are being supported through the change process through a programme of staff engagement

exercises, frequently asked questions and weekly news letters. Staff surveys have also been conducted to determine engagement levels, awareness and commitment to the LGR programme.

Resources to deliver the programme are likely to remain high risk however due to the scale of the programme and necessary speed of implementation. With officers fully engaged in delivering multiple products over different workstreams, resilience is low and there could be a significant impact on the programme should key officers be absent. The programme clearly recognises this risk and mitigates it as much as possible through a strong PMO alongside staff support and engagement initiatives.

From our discussions with Chief Executives and senior officers across Somerset, it is evident that there is a strong culture of collaboration within the LGR programme. Officers and Members from all the Somerset councils are working well together in order to effect a successful transition to the new council. This is to be commended.

Local government reorganisation programmes are complex activities that often require rapid implementation due to the short timescales between Secretary of State decisions and vesting day. The programme rightly prioritises the delivery of key products that are required for vesting day to create a safe and legal council.

However, there also needs to be a focus on, and adequate resources allocated to, planning and delivering the transformation of services that is required after vesting day. Transformation is required to achieve the business case benefits relating to joining up services and collaboration, but also to help bridge the significant budget gaps the new Council will need to address over the medium term.

We have made an improvement recommendation that in order to achieve successful transformation the Council should ensure adequate resources are allocated to its planning and delivery, that business as usual activities are reviewed as required to create capacity, and that key organisational enablers such as the staff structure, target operating model and the Council Plan are approved. The Target Operating Model should provide the benchmark against which to assess the current state of services and identify priorities for service redesign. The Council Plan will determine the priorities for the new authority and how these will be delivered, again informing the level of service redesign required.

Governance

Therefore from our work we have identified that there are good governance arrangements in place to manage the complex task of local government reorganisation in Somerset. Progress is closely managed and monitored and at the time of writing no material gaps in delivery of products for vesting day have been identified. The programme should ensure that sufficient resources are allocated to planning the transformation stage, which will be critical to realising the benefits within the business case and in balancing the budget gap identified for Somerset Council.

Page 340



Improvement recommendations



Governance

Recommendation 5

A risk management process should be developed for Somerset Council that addresses the recommendations made by internal audit. The risks within the strategic risk register should also be mapped to corporate priorities.

Why/impact

The new unitary council should have a robust risk management process in place that reflects best practice from all predecessor authorities. Mapping risks to corporate priorities ensures only strategic risks are included in the strategic risk register and that their impact on achieving priorities is understood.

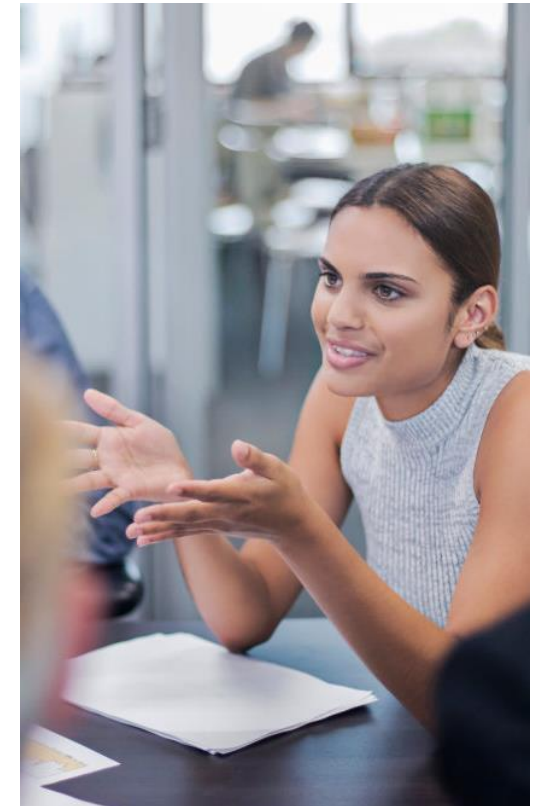
Summary findings

Internal audit carried out a follow up review of risk management in 2021/22, in response to the limited assurance opinion provided for the 2019/20 audit. Several actions were still not complete, including setting a risk appetite, ensuring consistency in recording risk, training, and timely review of operational risk. It was determined that a full audit of risk management was required as part of a larger review of the arrangements at all Somerset councils in preparation for LGR.

Risk within the Somerset County Council risk register are not mapped to corporate priorities.

Management Comments

The Council will develop a risk management process to ensure the internal audit recommendations are addressed



The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations



Governance

Recommendation 6

The Council should ensure adequate resources are allocated to the planning and delivery of transformation, that business as usual activities are reviewed as required to create capacity, and that key organisational enablers such as the staff structure, target operating model and the Council Plan are approved.

Why/impact

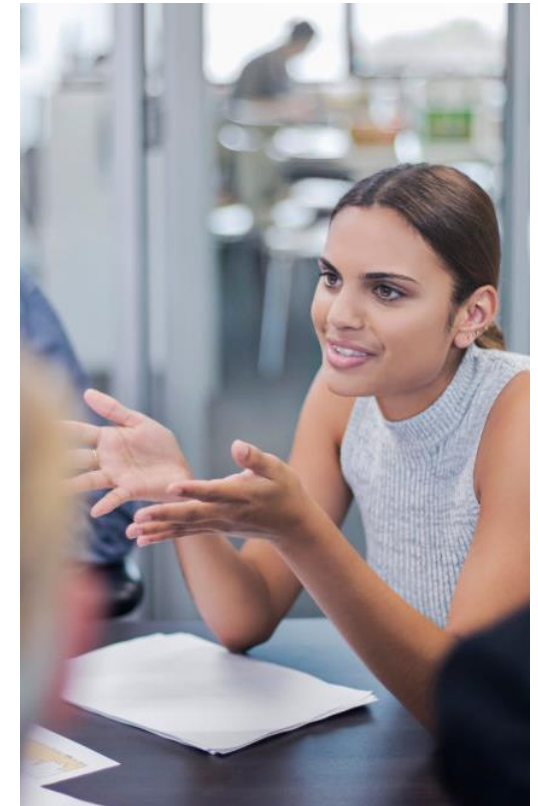
Transformation is required to achieve the business case benefits relating to joining up services and collaboration, but also to help bridge the significant budget gaps the new Council will need to address over the medium term.

Summary findings

The LGR programme rightly prioritises the delivery of key products that are required for vesting day to create a safe and legal council. However, there also needs to be a focus on, and adequate resources allocated to, planning and delivering the transformation of services that is required after vesting day.

Management Comments

The Council will ensure transformational and business as usual activities are adequately resourced, and key organisational enablers are approved.



The range of recommendations that external auditors can make is explained in Appendix C.

Improving economy, efficiency and effectiveness



We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives
- where it commissions or procures services assesses whether it is realising the expected benefits.

Performance management

The Council Business Plan 2021-23 sets out how the Council will deliver its “Vision for Somerset” and was approved in July 2021. Performance against the outcomes and priorities set out in the Business Plan was reported during the year to Cabinet or Executive on a quarterly basis through the Corporate Performance Reports.

Corporate Performance Reports include the key activities and key performance indicators (KPIs) for each of the five outcomes within the Business Plan. Key project monitoring includes a Red/Amber/Green (RAG) risk rating and narrative describing the latest position, risks and milestones for the project. Other KPIs are data driven and include the target, RAG rating, direction of travel, comparative data and a supporting narrative. Where appropriate KPIs are supported by graphs to aid understanding of the performance trajectory over time. The Corporate Performance Reports provide a good overview of performance against key corporate priorities and contain the areas of best practice we would expect to see.

The Corporate Performance Report for Quarter 4 2021/22 identified areas of success for the year, such as the reduced number of placements in residential and nursing care, the refresh of the Covid-19 Local Outbreak Management Plan, and improving outcomes for vulnerable learners. Where there are areas of performance concern, these are highlighted in the report. The concerns identified at Quarter 4 related to packages of care, pressures on staff, and the Connecting Devon and Somerset capital project. Where performance is below target mitigating actions are identified. Overall performance for the year against the outcomes measured through the Corporate Performance Reports was good, with only three KPIs red RAG rated out of a total of 33.

Our review of the Council’s arrangements for managing performance has not identified any significant areas of weakness. The Council has appropriate arrangements in place.

Children’s services

Ofsted and the Care Quality Commission (CQC) wrote to the Council in April 2020, raising concerns over the implementation of SEND reforms. These concerns focused on the speed of implementation, capacity and joint commissioning. The Council and Somerset Clinical Commissioning Group responded through a joint written statement of action to address the weaknesses identified, which was approved by Ofsted and the CQC in November 2020. The Council can demonstrate that it has continued to make positive progress against the nine improvement priority areas, with progress monitored monthly through the SEND Improvement Board. Additional monitoring visits were made by the Department for Education and NHS England during the year.

The SEND Strategic Partnership was set up in September 2021 and meets monthly to bring partners together to agree local priorities and monitor performance against them. The Partnership Board is responsible for developing and overseeing Somerset’s new SEND Strategy.

Improving economy, efficiency and effectiveness

Ofsted inspected Somerset local authority Children's Services in July 2022, publishing their inspection letter in September 2022. Somerset County Council was awarded 'Good' across all areas, and significant progress was noted since the last inspection in 2017.

The Council can demonstrate continued improvement with regard to Children's Services, both through progress with the SEND written statement of action and through the recent Ofsted inspection. Therefore we have found no evidence of significant weaknesses in arrangements in this area.

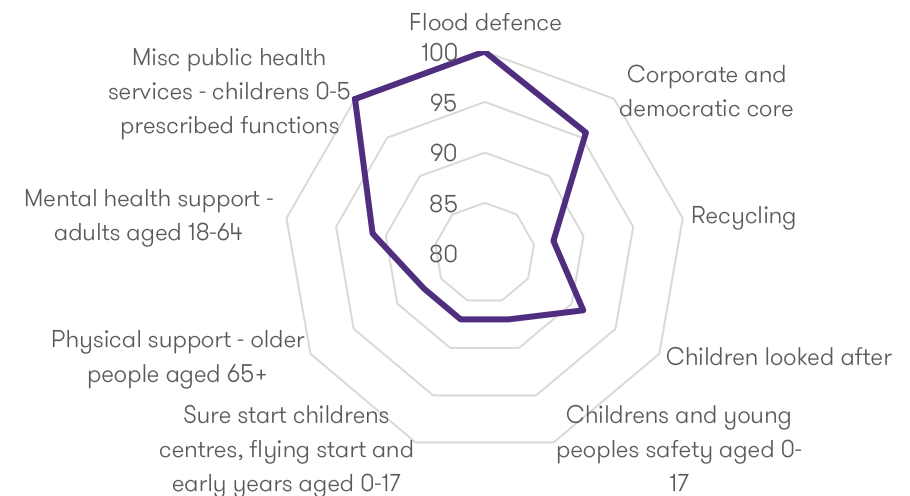
Benchmarking and learning from others

Benchmarking is an effective tool that enables an organisation to compare and analyse its performance with others. It can provide a basis for collaboration and identify areas for improvement. Somerset County Council uses benchmarking of service cost and performance were relevant.

Benchmarking was used in the recent MTFP challenge sessions for Children's and Adult's Services. Adult's Services benchmarking included performance data for demand at the front door, discharge from hospital, unmet needs, and placements in residential and nursing settings. Cost benchmarking was undertaken for spend on adult care against statistical nearest neighbours and by geographical area. Variations in demographic data between local authorities was also considered. The Children's Services benchmarking also included performance and cost analysis against statistical nearest neighbours.

We have undertaken benchmarking using our management tool 'CFO Insights' in order to compare unit costs for a range of services, identifying areas where the unit costs were very high in comparison to other county councils. These are summarised in the graph opposite and have been discussed with the finance team. No significant weaknesses in arrangements have been identified through our discussions. The Council is aware of high unit costs within Children's and Adults Services through its own benchmarking. One-off costs within other service areas are contributing to higher unit costs, for example the costs of local government reorganisation within corporate and democratic core, and the costs of rolling out Recycle More within waste collection. The finance team understand what elements are contributing to the high unit costs within public health and flood defence.

Services with very high units costs



Improving economy, efficiency and effectiveness

Page 345

Very high unit costs were noted within Children's and Adult's Services which are demand led and which were subject to MTFP challenge sessions as described above. Budget pressures were noted for Children's Services social care in the 2021/22 outturn report due to the increasing number of children with complex needs coming into care and increasing costs of care. During 2021/22 the Council selected a strategic partner to run Council-owned children's homes, which will be purchased to provide additional local capacity and reduce expensive residential placements.

From our work we have not found any risk of significant weakness with regard to the Council's arrangements for benchmarking service cost and performance.

Partnership working

The Council's Business Plan recognises that working with partners and communities to deliver sustainable local services is a key priority.

We have reviewed how the Council interacts with key partners to develop meaningful actions to be delivered, and how the performance of partners is monitored and fed back to Members. The key partnerships that we have considered include:

- Health and Wellbeing Board – a statutory body for local services to work together to produce a Health and Wellbeing Strategy and oversee the local health system;
- Intermediate Care Home First – a collaborative partnership providing care services in the community to keep people independent and living at home;
- Heart of the South West Joint Committee – a strategic committee with the objectives of improving the economy and maximising economic opportunities within the area;
- Somerset Waste Partnership – a partnership of local authorities in Somerset to collect and recycle waste, contributing to climate resilience and sustainable service priorities.

The Council maintains a partnership register of statutory partnerships and those that are fundamental to the delivery of Council priorities. We identified an improvement recommendation in 2020/21 that the Council should update the partnership register to include a link to the strategic objectives to which they contribute.

From discussion with officers we understand that as part of the work to transition to the new unitary council, Somerset County Council is working with the districts to develop a partnership strategy and framework. This will include linking partnerships to the strategic objectives of the new organisation.

Therefore the Council can demonstrate that it has appropriate arrangements in place with regard to partnership working. The Council can articulate who its key partners are and can demonstrate how it works with partners to achieve corporate priorities.

Procurement and contract management

The Council has a Procurement Strategy which identifies three priorities relating to leadership, commercial behaviour, and improving lives.

The Council approved revised Contract Procedure Rules and Standing Orders in February 2022. The purpose of the Contract Procedure Rules are to provide a framework for making contracts for the supply of goods and services that ensures compliance with legislation. Contract Procedure Rules include an updated approach to assessing the most economically advantageous tender of 60% price, 30% quality and 10% social value, reflecting the Council's revised Social Value Policy.

We note that internal audit provided a limited assurance opinion for their review of the Strategic Commissioning Framework in 2021/22, recognising that the operating model is reasonable but improvements could be made in areas such as updating business plan priorities for commissioning and improving governance around the Strategic Commissioning Group. We note from discussions with officers that local government reorganisation has delayed the implementation of internal audit recommendations. The commissioning workstream is in the process of developing the approach to commissioning for the new authority, which will be part of the Target Operating Model.

We made an improvement recommendation in the Auditor's Annual Report 2020/21 that an action plan should be developed to set out how the aspirations within the Procurement Strategy will be achieved and provide a basis on which to monitor progress. This recommendation has not been actioned due to the impact of Covid-19 and also the focus of resources on local government reorganisation. An LGR workstream is considering the procurement strategy for the new unitary authority.

Improving economy, efficiency and effectiveness

Page 346

We have identified an improvement recommendation that as LGR workstreams consider the Procurement Strategy and commissioning arrangements for the new unitary council, they should take into account previous external and internal audit recommendations in order to ensure the new arrangements are robust.

The Council undertook several significant procurements during 2021/22 that demonstrate that an open and competitive procurement exercise was undertaken, and that the risks and rewards of procurement options are properly considered. Examples include the procurement of the Community Equipment and Wheelchair Service and the selection of Aspire for Housing as the strategic partner to run Council-owned children's homes.

We note that in February 2022, Cabinet approved the extension of the contract for the delivery of care and support services for clients living within Extra Care Housing. The decision was subject to a public report setting out the reasons for the contract extension. The report set out the legal implications of the extension in terms of the Public Contract Regulations and the Constitution. Mitigating actions to the risk of legal challenge were identified, with the proposal that the decision to extend the contracts should be made transparent at an early stage and published on the Council's contracts register.

From discussion with officers we have determined that the decision to extend the contract was not published as planned. We have made an improvement recommendation that when contracts are extended the Council should ensure transparency and mitigate the likelihood of legal challenge by publishing the decision in a timely manner through the contracts register.

We identified an improvement recommendation in the Auditor's Annual Report 2020/21 that the Council should continue to work with services to reduce contract breaches, and should consider reporting waivers and breaches to the Audit Committee. The Council does now produce an annual waivers and breaches report which is considered by the Governance Board. We understand that from 2023/24 this will be reported to the Audit Committee.

The annual waivers and breaches report for 2021/22 identifies 18 breaches totalling £22.7m, in addition to 43 waivers totalling £4.7m. Therefore the level of breaches and waivers is still significant, with the majority of non-compliance with procurement rules due to time and resource pressures.

Therefore we have made an improvement recommendation that the Council should continue to focus on reducing the number and value of breaches and waivers in order to ensure procurement rules are followed, and that opportunities to drive efficiencies from procurement exercises are taken.

We have not identified any significant weaknesses in the Council's procurement arrangements, and recognise that resources have been diverted to determine procurement and commissioning arrangements for the new authority. We have identified improvement recommendations to strengthen arrangements for Somerset County Council, and for consideration when transitioning to Somerset Council.

Improvement recommendations



Improving economy, efficiency and effectiveness

Recommendation 7

It should be ensured that previous external and internal audit recommendations are taken into account when LGR workstreams consider the Procurement Strategy and commissioning arrangements for the new unitary council.

Why/impact

Procurement and commissioning arrangements for the new council will be more robust if they take account of recommendations previously made to address identified weaknesses.

Summary findings

Internal audit provided a limited assurance opinion for their review of the Strategic Commissioning Framework in 2021/22, recognising that the operating model is reasonable but improvements could be made in areas such as updating business plan priorities for commissioning and improving governance around the Strategic Commissioning Group.

We made an improvement recommendation in the Auditor's Annual Report 2020/21 that an action plan should be developed to set out how the aspirations within the Procurement Strategy will be achieved.

Management Comments

Previous audit recommendations will be considered when the Procurement Strategy and commissioning arrangements for the new council are developed.



The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations



Improving economy, efficiency and effectiveness

Recommendation 8

When contracts are extended the Council should publish the decision in a timely manner through the contracts register.

Why/impact

Publishing decisions to extend contracts on the contracts register promotes transparency and mitigates the likelihood of legal challenge.

Summary findings

Cabinet approved the extension of the contract for the delivery of care and support services for clients living within Extra Care Housing. The decision was subject to a public report setting out the reasons for the contract extension. The report set out the legal implications of the extension in terms of the Public Contract Regulations and the Constitution. Mitigating actions to the risk of legal challenge were identified with the proposal, namely that the decision to extend the contract should be made transparent at an early stage and published on the Council's contracts register.

From discussion with officers we have determined that the decision to extend the contract was not published as planned.

Management Comments

The Council will ensure contract extensions are published in a timely manner through the contracts register.



The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations



Improving economy, efficiency and effectiveness

Recommendation 9

The Council should continue to focus on reducing the number and value of procurement breaches and waivers in order to ensure procurement rules are followed.

Why/impact

Breaches of procurement rules increase the risk of legal challenge. Conducting compliant procurement exercises can identify opportunities to drive efficiencies from contracts.

Summary findings

The annual waivers and breaches report for 2021/22 identifies 18 breaches totalling £22.7m, in addition to 43 waivers totalling £4.7m. The level of breaches and waivers is significant, with the majority of non-compliance with procurement rules due to time and resource pressures.

Management Comments

The Council will focus on reducing the number/value of procurement breaches and waivers.



The range of recommendations that external auditors can make is explained in Appendix C.

Pension Fund Arrangements

Page 350

Our review of the arrangements for administering the Pension Fund has not identified any evidence of significant weakness.

The Pension Fund plans and manages its resources, monitors performance, and manages risk to ensure that it can continue to deliver its services. The Fund appoints an external Actuary to provide specialist advice on funding, contribution levels, and carry out Pension Fund valuations.

The Pension Board's role is to ensure the effective governance of the Local Government Pension Scheme (LGPS) and compliance with regulations and legislation. The Board met twice during 2021/22 to consider the risk register, Investment Strategy and Business Plan.

The Pension Committee represents the decision making body for the Pension Fund. They met four times during 2021/22 to monitor investment and administration performance, and to review key governance documents such as the risk register, Funding Strategy and Business Plan. The Pension Committee receives an Annual Report and Accounts which includes summaries of investment activity, performance and cost.

The Risk Register is a standing agenda item for the Pension Board and Pension Committee meetings. The Risk Register includes control measures, current and target RAG rated risk scores, additional mitigating actions, target dates, and the risk owner.

The Funding Strategy Statement identifies how employer's pension liabilities are best met going forward, and seeks to ensure the solvency and long term cost efficiency of the Pension Fund. Funding objectives include setting levels of employer contributions to target a 100% funding level over an appropriate time. Valuation assumptions are made when completing the actuarial valuation of the Fund and these are set out in the Funding Strategy. These include inflation, pension increases, pay increases, investment returns, demographic assumptions and asset valuations. Where employers show a deficit between assets and accrued benefits, a deficit recovery adjustment is made to increase their contributions over an agreed period of between 3 and 19 years.

The Investment Strategy sets out the policy for asset allocation, managing risk, and is designed to achieve an investment return consistent with the objectives and assumptions set out in the Funding Strategy.

The Pension Committee Training Policy confirms that Members are expected to undertake regular training to ensure they have sufficient knowledge of the LGPS and investment issues in order to make informed decisions. The Fund has formally adopted the CIPFA Pensions Finance Knowledge and Skills Framework for Members and officers, and assesses individuals against suggested standards of knowledge. The Annual Report 2021/22 confirms that while opportunities for external training was limited due to Covid-19, three internal training sessions were held in the year focussing on developing the new Investment Strategy.

The Pension Fund awaits the response from the government on the National Scheme Advisory Board's good governance report, and which elements will have statutory backing for the LGPS, or whether the government will produce their own set of requirements. It will then consider how to implement the recommendations.



Follow-up of previous recommendations

| | Recommendation | Type of recommendation | Date raised | Progress to date | Addressed? | Further action? |
|---|---|------------------------|---------------|--|-------------|---|
| 1 | The capital programme and funding should remain under constant review and the revenue cost implications should be factored into the budget. This should be at County and Unitary level. | Improvement | February 2022 | The capital programme is currently being examined to identify schemes that can be paused or reprofiled in response to the adverse revenue forecast for 2022/23 and in preparation for local government reorganisation. | Yes | Scrutiny of the future capital programme should continue to manage financial risk with regards to scheme cost and associated borrowing costs. |
| 2 | The general level of reserves should remain under constant review as LGR and other areas of focus progress. | Improvement | February 2022 | The level of SCC reserves has increased and provides for improved financial resilience. Reserves are reviewed as part of the LGR budget process. | Yes | A reserves strategy should be approved to identify the level of reserves required for transformation and risk mitigation. |
| 3 | Savings should be clearly monitored and reported. The joint medium term financial challenge should be fully understood. | Improvement | February 2022 | SCC savings are monitored through quarterly budget reports to Executive. LGR savings are monitored through programme governance. | Yes | None. |
| 4 | The partnership register should be updated to include a link to strategic objectives to which they contribute. | Improvement | February 2022 | As part of the transition to the new unitary council work is underway to develop a partnership strategy and framework, including linking partnerships to strategic objectives. | In progress | None. |
| 5 | The Procurement Strategy should include an action plan that sets out actions required to achieve the aspirations set out in the strategy. | Improvement | February 2022 | This recommendation has not been actioned due to the impact of Covid-19 and also the focus of resources on LGR. | No | Improvement recommendation made that this should be considered as part of transition to the new council. |
| 6 | The Council should reduce contract breaches and report waivers and breaches to the Audit Committee. | Improvement | February 2022 | An annual breaches and waiver report is reported to Governance Board. The value of breaches and waivers is still significant. | Partly | The Council should continue to focus on reducing the number and value of procurement breaches and waivers. |
| 7 | The Pension Fund should implement the recommendations from the National Scheme Advisory Board's good governance report. Members should be appropriately trained. | Improvement | February 2022 | Pension Committee Members are provided with appropriate training in order to make informed decisions. | Partly | The Council awaits the response from Government on the National Scheme Advisory Board's good governance report, and which elements will have statutory backing. |

Opinion on the financial statements



Audit opinion on the financial statements

Our work is substantially complete and we anticipate to issue an unqualified audit opinion.

Audit Findings Report

More detailed findings can be found in our AFR, which will be published and reported to the Council's Audit Committee on 24 November 2022.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council.

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.

Guidance has not yet been received for the 2021-22 financial year. If the thresholds remain the same as the prior year, we expect that work will not be required as the Council does not exceed the threshold of £2 billion. Note that work is not yet complete and the timescales are unknown, as we await central guidance.

Preparation of the accounts

The Council provided draft accounts in line with the national deadline.

Both your finance team and our audit team faced audit challenges again this year, such as the continuation of remote working and the need to access supporting evidence remotely, which necessitates additional work and takes longer. Many of the Council's officers respond proactively and in a timely way to our enquiries, although there remains some areas where further improvement is required to ensure that we receive sufficient and robust supporting evidence in a timely way. Some of these delays, and the need for additional enquiries and audit work, was required in order for us to gain sufficient audit assurance in respect of our auditor's opinion on the financial statements. This has also resulted in additional fees being levied to the Council. We are keen to continue to work proactively with the Council to address these areas and ensure that the audit can be completed as efficiently as possible, and this will be even more important as the Council transitions into the new Unitary Auditory from 1 April 2023 and the unique challenges that this will present.

Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation



Appendices

Appendix A – Responsibilities of the Council

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

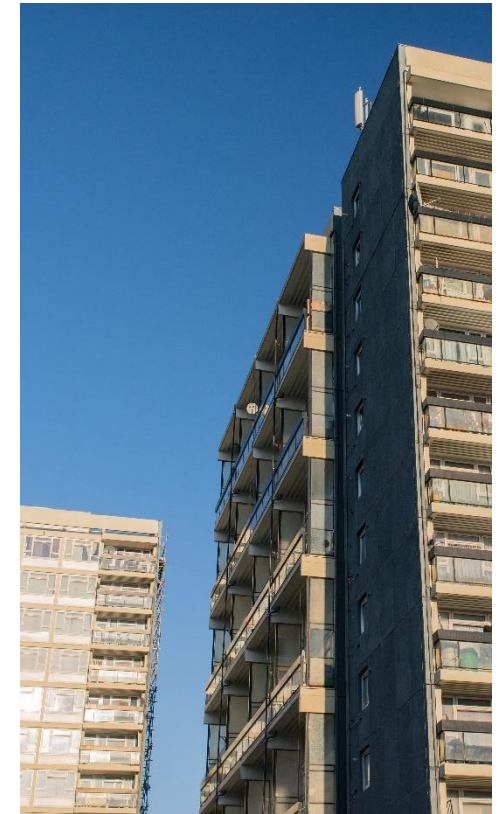
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) or equivalent is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

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



Appendix B – Risks of significant weaknesses, our procedures and findings

As part of our planning and assessment work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we identified are detailed in the table below, along with the further procedures we performed, our findings and the final outcome of our work:

| Risk of significant weakness | Procedures undertaken | Findings | Outcome |
|--|--|--|---|
| Financial sustainability was identified as a potential significant weakness, see page 13 for more details. | We have undertaken additional work to assess the progress made across key financial LGR workstreams. | There is a robust process in place for delivering a balanced budget for 2023/24, but the scale of savings required to achieve a balanced position for the first year of Somerset Council represents a significant challenge. | Appropriate arrangements are in place, with four improvement recommendations raised. |
| Governance was identified as a potential significant weakness, see page 22 for more details. | We have undertaken additional work to assess the LGR programme's governance arrangements. | There are good governance arrangements in place to manage the complex task of local government reorganisation in Somerset. Progress is closely managed and monitored and at the time of writing no material gaps in delivery of products for vesting day have been identified. | Appropriate arrangements are in place, with two improvement recommendations raised. |
| Improving economy, efficiency and effectiveness was not identified as a potential significant weakness. | No additional procedures undertaken. | Appropriate arrangements are in place to improve economy, efficiency and effectiveness. | Appropriate arrangements are in place, with three improvement recommendations raised. |

Appendix C – An explanatory note on recommendations

A range of different recommendations can be raised by the Council’s auditors as follows:

Page 356

| Type of recommendation | Background | Raised within this report | Page reference |
|------------------------|---|---------------------------|---|
| Statutory | Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. | No | Not applicable. |
| Key | The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as ‘key recommendations’. | No. | Not applicable. |
| Improvement | These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council’s arrangements. | Yes. | Pages 16-19 Pages 25-26 Pages 31-33 |



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Informing the audit risk assessment for Somerset County Council 2021/22



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Table of Contents

| Section | Page |
|--|------|
| Purpose | 4 |
| General Enquiries of Management | 6 |
| Fraud | 9 |
| Fraud Risk Assessment | 10 |
| Laws and Regulations | 15 |
| Impact of Laws and Regulations | 16 |
| Related Parties | 18 |
| Going Concern | 20 |
| Accounting Estimates | 22 |
| Accounting Estimates - General Enquiries of Management | 23 |
| Appendix A – Accounting Estimates | 26 |

Page 361

Purpose

The purpose of this report is to contribute towards the effective two-way communication between Somerset County Council's external auditors and Somerset County Council's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Council's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties,
- Going Concern, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from Somerset County Council's management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Page 364

| Question | Management response |
|--|---|
| <p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2021/22?</p> | <p>The Covid-19 Pandemic has had a significant impact both in terms of additional costs, staffing redeployment, and grants. This has had an impact as the focus for the authority has been to support the public health and wellbeing of our residents. The Council has received just under £44m of Covid-19 Grants and has monitored and reported the use of these grants against the Government's criteria for spend.</p> |
| <p>2. Have you considered the appropriateness of the accounting policies adopted by Somerset County Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?</p> | <p>Compliance with the CIPFA Code will mean that we use appropriate accounting policies.</p> |
| <p>3. Is there any use of financial instruments, including derivatives? If so, please explain</p> | <p>All financial instruments are disclosed in our notes to the accounts within our Statement of Accounts. During 2021/22 we invested an additional £5m in Pooled Funds and this will be disclosed within the Statement of Accounts. There is no use derivatives by SCC.</p> |
| <p>4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?</p> | <p>No</p> |

General Enquiries of Management

Page 365

| Question | Management response |
|---|--|
| <p>5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?</p> | <p>No, none</p> <p>An assessment is made annually by our valuers of our non-current assets and whether any impairment has occurred in the year.</p> |
| <p>6. Are you aware of any guarantee contracts? If so, please provide further details</p> | <p>Guarantee bonds that are in place have been assessed as not material.</p> |
| <p>7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details</p> | <p>Yes, we are aware of all outstanding legal cases which are assessed for any loss contingencies as part of our Statement of Accounts processes.</p> |
| <p>8. Other than in house solicitors, can you provide details of those solicitors utilised by Somerset County Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?</p> | <p>The firms/organisations used in 2021/22 to date are:</p> <p>Browne Jacobson – Adult Social Care advice</p> <p>Bevan Brittan – Adult Social Care advice</p> <p>Anthony Collins – Funding agreement/Unitary advice</p> <p>Goughs – s106</p> <p>Mendin District Council – s106</p> |

General Enquiries of Management

Page 366

| Question | Management response |
|--|--|
| 9. Have any of the Somerset County Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details | No |
| 10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted? | <p>The council has regularly used advisors / consultants across various services on a range of issues to provide expert advice. For finance, we use advice for various specialisms such as specific VAT advice, insurance brokers, treasury advisors and LG Futures for financial forecasting & modelling.</p> <p>Some external advice was sought regarding Local Government Reorganisation in Somerset</p> <p>If there is a particular area that further details are required this can be provided.</p> |
| 11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details | The council regularly reviews its financial assets, and no material credit loss provisions have been recognised in 2021/22. A final review will be carried out at year-end, and a loss provision will be recognised if required under IFRS9. |

Fraud

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Somerset County Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Somerset County Council's management.

Fraud risk assessment

| Question | Management response |
|---|--|
| <p>1. Has Somerset County Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Council's risk management processes link to financial reporting?</p> | <p>We do not believe this to be an issue as no material frauds have been identified during the year. We believe that the risk of unknown material fraud to be low.</p> <p>Our control environment around fraud control has not changed from previous years. A key part of our arrangements is the use SWAP Ltd as our Internal auditors. SWAP has now completed a baseline assessment for fraud and we have been following the action plan for improvement.</p> <p>There is robust medium term financial plan in place to ensure a sound budget is set for the year. This has been risk assessed and those risks have been included in the budget report. These risks will continue to be monitored and reported as part of budget monitoring. Comprehensive monthly budget monitoring ensures the risks of over or underspending are well managed and projects remain on track. Budget monitoring is part of the overall system of internal controls designed to mitigate against risks of incorrect financial reporting.</p> |
| <p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p> | <p>Accounts payable and payroll</p> |
| <p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Somerset County Council as a whole, or within specific departments since 1 April 2021? If so, please provide details</p> | <p>Yes there have been some instances that have been recorded and in some cases processes amended as a result.</p> <ul style="list-style-type: none"> - Impersonation of an SLT officer to change payroll bank details – not successful but reminder to Payroll team of control process via SAP not manual process. - Five allegations regarding error, favouritism and process during procurement contract award of specific major project – full investigation conducted by SWAP anti-fraud team. |

Fraud risk assessment

Page 369

| Question | Management response |
|--|--|
| <p>4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p> | <p>Regular risk updates are presented to the Audit Committee and annually an Anti-Fraud and Corruption Paper is also presented to this committee. This paper includes a summary of actual, suspected and alleged frauds over the previous year.</p> |
| <p>5. Have you identified any specific fraud risks? If so, please provide details</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Somerset County Council where fraud is more likely to occur?</p> | <p>Areas at risk of fraud are identified by:</p> <ul style="list-style-type: none"> • SWAP audit work • SWAP Fraud alerts • Staff allegations • Risk register/assessments <p>Cases of attempted electronic fraud through phishing and impersonation are increasing. We have seen this through vendor set up, accounts payable and payroll.</p> |
| <p>6. What processes do Somerset County Council have in place to identify and respond to risks of fraud?</p> | <p>South West Audit Partnership (SWAP) fraud alerts are circulated to appropriate managers and departments. The Council has an Anti Fraud and Corruption Policy, Anti Money Laundering Policy, Anti – Bribery Policy, Anti Tax Evasion Policy and Whistleblowing Policy</p> <p>The Council holds a register that records reports of fraud and any consequent actions to improve processes</p> <p>A dedicated anti-fraud email address for notifications to be made to.</p> |

Fraud risk assessment

Page 370

| Question | Management response |
|--|---|
| <p>7. How do you assess the overall control environment for Somerset County Council, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details</p> | <p>Through effective audit through SWAP. The Finance Business Partners work closely with services in upholding those controls</p> <p>The Council has a Fraud and Corruption Policy, Whistle blowing Policy, Anti money Laundering Policy, Anti Bribery Policy and Anti Tax Evasion Policy</p> <p>No</p> |
| <p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p> | <p>None identified</p> |

Fraud risk assessment

Page 371

| Question | Management response |
|---|--|
| <p>9. How does Somerset County Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details</p> | <p>The Council operates a Code of Conduct for both officers and members. Regular updates through CORE brief, staff induction & training. All outside organisations contracted are bound by strict ethical behaviours contained within their contract.</p> <p>Reporting procedures laid out in Anti-Fraud and Corruption Policy. Also through the Council's whistleblowing policy.</p> <p>Staff must report any concerns they may have regarding fraud and corruption, whether it relates to dishonest behaviours by Council employees, Members, Contractors or by others.</p> <p>No significant issues have been reported during the financial year 2021/22.</p> |
| <p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p> | <p>Because of the overall governance framework and internal control environment there are no posts that are considered to be high-risk.</p> |
| <p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p> | <p>No. All elected members and senior officers are required to provide details of any related party relationships on an annual basis.</p> <p>SCC staff are bound by the Council's Contract Standing Orders to ensure proper procurement practices are followed at all times.</p> |

Fraud risk assessment

Page 372

| Question | Management response |
|---|---|
| <p>12. What arrangements are in place to report fraud issues and risks to the Audit Committee?</p> <p>How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p> | <p>The Anti-Fraud and Corruption Policy sets out the ways to report and investigate fraud. An annual fraud report is made to Audit Committee each year. SWAP also report regularly to the Audit Committee. The Audit Committee can also call in any report with a Partial assessment and will review that recommendations have been carried out. The Audit Committee also review any high priority findings of non-opinion audits.</p> <p>There have been no instances of fraud relating to breaches of internal controls to be reported in 2021/22. A full report of fraud (including suspected) instances will be taken to Audit Committee in the new year as part of our annual reporting.</p> |
| <p>13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p> | No |
| <p>14. Have any reports been made under the Bribery Act? If so, please provide details</p> | No |

Law and regulations

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that Somerset County Council's operations are conducted in accordance with laws and regulations, including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the body is in compliance with laws and regulations. Where we become aware of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Page 374

| Question | Management response |
|--|---|
| <p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Somerset County Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?</p> | <p>Somerset County Council's constitution and scheme of delegation outlines the rights, responsibilities and duties of the Council and it's officers. The Monitoring Officer oversees compliance with the constitution and scheme of delegation, and reports on matters he believes are or are likely to be illegal or amount to maladministration. The Monitoring Officer seeks legal advice should he require it, additionally he checks that Legal Services are consulted as part of any decision making process</p> |
| <p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p> | <p>All committee reports require sign off by statutory officers and other key officers and there is a clear section on legislation</p> |
| <p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2021 with an on-going impact on the 2021/22 financial statements? If so, please provide details</p> | <p>No</p> |
| <p>4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details</p> | <p>No</p> |

Impact of laws and regulations

| Question | Management response |
|--|--|
| 5. What arrangements does Somerset County Council have in place to identify, evaluate and account for litigation or claims? | Legal Services evaluate instructions upon receipt and advise internal service clients accordingly. Service departments (with the support of Corporate) make their own arrangements in respect of accounting for litigation or claims |
| 6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details | No |

Related Parties

Matters in relation to Related Parties

Somerset County Council are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by Somerset County Council;
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any body that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Council's perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

Page 377

| Question | Management response |
|---|--|
| <p>1. Have there been any changes in the related parties including those disclosed in Somerset County Council's 2020/21 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> • the nature of the relationship between these related parties and Somerset County Council • whether Somerset County Council has entered into or plans to enter into any transactions with these related parties • the type and purpose of these transactions | No |
| <p>2. What controls does Somerset County Council have in place to identify, account for and disclose related party transactions and relationships?</p> | <p>The authorities elected Members are sent an annual questionnaire to identify any material related party transactions, and the findings from the responses are disclosed in the published accounts.</p> <p>The authority reviews existing contractual arrangements to determine whether the authority has significant influence over the other parties due to the considerable proportion of business provided to them by the authority. Any material findings are disclosed in the published accounts.</p> <p>The authority publishes an annual Partnership Register, and a review of all key decisions is carried out annually to identify any new transactions/relationships.</p> |
| <p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p> | No related parties |
| <p>4. What controls are in place to authorise and</p> | Following approved processes regarding segregation of duties and payment approval protocols. |

Going Concern

Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the body's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

Going Concern

Page 379

| Question | Management response |
|---|---|
| <p>1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by Somerset County Council will no longer continue?</p> | <p>The CIPFA 2020/21 Accounting Code of Practice confirms that on the basis that local authorities 'cannot be created or dissolved without statutory prescription, it would not therefore be appropriate for their financial statements to be provided on anything other than a going concern basis'.</p> <p>The s151 officer conducts an annual Going Concern assessment. The main factors underpinning this assessment will include:</p> <ul style="list-style-type: none"> • 2021/22 Outturn • Covid 19 • Balance Sheet • 2022/23 Budget • Budget Monitoring Process • MTFP & Future years • CIPFA Resilience Index • Borrowing & Cash flow • The Council's Vision and Financial Planning Process • Council's Governance Arrangements • Local Government Reorganisation • Regulatory and control environment applicable to the Council as a local authority. • Financial Sustainability |
| <p>2. Are management aware of any factors which may mean for Somerset County Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?</p> | <p>No</p> |
| <p>3. With regard to the statutory services currently provided by Somerset County Council, does Somerset</p> | <p>Somerset County Council expects to continue delivering its statutory services until 31st March 2023. A local government re-organisation will mean these services are provided by the new Somerset</p> |

Accounting estimates

Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

Page 381

| Question | Management response |
|--|--|
| 1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures? | These are all disclosed in the Statement of Accounts. |
| 2. How does the Council's risk management process identify and address risks relating to accounting estimates? | The authority reviews the previous year's Statement of Accounts and the Auditor's report to add further assurances and review any areas requiring further robustness |
| 3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates? | The team attends technical updates to ensure they are aware of any changes required and follow CIPFA Code guidance. |
| 4. How do management review the outcomes of previous accounting estimates? | Material variations would impact on budget monitoring. |
| 5. Were any changes made to the estimation processes in 2021/22 and, if so, what was the reason for these? | No changes |

Accounting Estimates - General Enquiries of Management

| Question | Management response |
|---|--|
| 6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates? | Disclosure of existing critical judgements is made within the notes to the accounts within our Statement of Accounts. |
| 7. How does the Council determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts? | These are reviewed by the Chief Accountant and the S151 Officer |
| 8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts? | We ensure that those providers are suitably qualified. In addition to this we are introducing more check and challenge to accounting estimates. In the area of property valuations further internal check and challenges have been introduced. |
| 9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. | Accounting estimates are tested for reasonableness and also compared to previous years to pick up any anomalies. The Chief Accountant is professionally qualified and very experienced. Also see above response re property valuations. The methods and models used are consistent with those used in similar authorities |

Accounting Estimates - General Enquiries of Management

Page 383

| Question | Management response |
|---|--|
| 10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they? | No |
| 11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable? | All accounting estimates are considered by suitably qualified professionals. |
| 12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ? | Audit Committee members attend a training session each year prior to the Statement of Accounts being presented for approval. The Committee are then walked through the Statement of Accounts including the accounting policies. Any material variations compared to previous years are explained |

Appendix A Accounting Estimates

Page 384

| Estimate | Method / model used to make the estimate | Controls used to identify estimates | Whether management have used an expert | Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates | Has there been a change in accounting method in year? |
|--------------------------------|--|--|---|--|--|
| Land and buildings valuations | Current or Fair Value (based on Existing Use Value; Highest and Best Use, and DRC – depending on class of asset) | The authorities professional team of in-house valuers follow RICS guidance and incorporate a peer review to ensure the correct estimation method is adopted. | The authority uses its own in-house team of RICS qualified valuers. | The authority's in-house team of qualified valuers assess the uncertainty, and elect the most suitable estimate based on RICS guidance. | The DRC rates used for Externals is now based on evidencable data rather than a historic rate. |
| Council dwelling valuations | Not applicable | Not applicable | Not applicable | Not applicable | Not applicable |
| Investment property valuations | Not applicable | Not applicable | Not applicable | Not applicable | Not applicable |
| Depreciation | Management consider a combination of accounting guidance (from CIPFA and RICS) and professional knowledge/experience of the authority's asset portfolio to select/design the estimation models used. | Information provided is peer reviewed within the Property Services team prior to submission to management. | The authority uses its own in-house team of RICS qualified valuers. | Management rely on the authority's in-house team of property professionals to consider the sensitivity of the estimate, and the level of disclosure in the financial statements. | No |

Appendix A Accounting Estimates

Page 385

| Estimate | Method / model used to make the estimate | Controls used to identify estimates | Whether management have used an expert | Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates | Has there been a change in accounting method in year? |
|---|--|--|--|--|---|
| Valuation of defined benefit net pension fund liabilities | Provided by Fund actuary | As per actuary advice | Yes, Barnett Waddingham | As per actuary advice | No |
| Level 2 investments | Provided by External Fund Managers | Provided by External Fund Managers | Yes, Arlingclose | Arlingclose will consider the underlying assumptions and assess the uncertainty in their calculations. | No |
| Fair value estimates | The FV models used have been provided by the authority's treasury management advisors (Arlingclose). | Management uses its in-house finance experts to sense check the models and assumptions provided by the treasury management advisors. Statutory guidance is considered as part of the review process. | Yes, Arlingclose | Estimation uncertainty is considered by the authority's treasury management advisors, and in-house finance team. Where uncertainty exists, the authority adopts the prudence concept when selecting the point estimate to use. | No |
| PFI Liabilities | Management use the audited PFI model provided by the PFI consultants on the commencement of the | The authority monitors the operation of control activities through its in-house contract | Management use the audited PFI model provided by the | Management use the PFI model to determine the year-end liability position. | No |

Appendix A Accounting Estimates

Page 386

| Estimate | Method / model used to make the estimate | Controls used to identify estimates | Whether management have used an expert | Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates | Has there been a change in accounting method in year? |
|---------------------------------------|---|--|--|--|---|
| Provisions | Service finance teams process their own provisions based on service knowledge. Approval is required from the Service manager prior to processing SAP. Corporate closing guidance is provided to service teams to make them aware of any rule changes and confirm the correct SAP entries. | Postings are monitored and controlled through the authority's monthly budget monitoring process, and Corporate approval from the Chief Accountant is required prior to any posting | No | Assumptions are based on service knowledge, and statutory guidance. | No |
| Accruals | Service finance teams process their own accruals based on service knowledge. Approval is required from the Service manager prior to processing SAP. Corporate closing guidance is provided to service teams to make them aware of any rule changes and confirm the correct SAP entries. | Accrual postings are monitored and controlled through the authority's monthly budget monitoring process. | No | Assumptions are based on service knowledge, and statutory guidance. | No |
| Credit loss and impairment allowances | Service finance teams process their own impairment allowances based on service knowledge of the debt | Corporate review of aged debt. Corporate | No | Assumptions are based on service knowledge, and statutory guidance. | No |



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Informing the audit risk assessment for Somerset Pension Fund 2021/22

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Table of Contents

| Section | Page |
|--|------|
| Purpose | 4 |
| General Enquiries of Management | 6 |
| Fraud | 9 |
| Fraud Risk Assessment | 10 |
| Laws and Regulations | 15 |
| Impact of Laws and Regulations | 16 |
| Related Parties | 18 |
| Going Concern | 20 |
| Accounting Estimates | 22 |
| Accounting Estimates - General Enquiries of Management | 23 |
| Appendix A – Accounting Estimates | 26 |

Page 391

Purpose

The purpose of this report is to contribute towards the effective two-way communication between Somerset Pension Fund's external auditors and Somerset Pension Fund's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Pension Fund's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties,
- Going Concern, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from Somerset Pension Fund's management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

| Question | Management response |
|--|--|
| <p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2021/22?</p> | <p>Nothing unusual expected in terms of Contribution income or benefits payments. Investment asset valuation will be impacted by current market volatility but are expected to be higher than the prior year level.</p> |
| <p>2. Have you considered the appropriateness of the accounting policies adopted by Somerset Pension Fund? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?</p> | <p>In light of the annual revisions to the CIPFA Code of Practice and other “best practice” guidance, we continually review our accounting policies and consider how they affect the Council’s and Pension Fund Accounts. Compliance with the CIPFA Code will mean that we use appropriate accounting policies.</p> <p>As we understand it there are no changes to the CIPFA code this year or to the fund’s circumstances and therefore we feel the current polices remain appropriate.</p> <p>There have not been any significant events that have been usual this financial year.</p> |
| <p>3. Is there any use of financial instruments, including derivatives? If so, please explain</p> | <p>There are specific notes in the accounts covering the use and value of derivatives</p> <p>As part of the transition of our fixed income holdings to Brunel during the 2021-22 financial year we no longer hold any derivatives but there will be reference to the prior year comparators when derivatives were in use.</p> |
| <p>4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?</p> | <p>Not applicable</p> |

General Enquiries of Management

| Question | Management response |
|--|--|
| 5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they? | Not applicable, the level of non-current assets that are also not investment assets is not material. |
| 6. Are you aware of any guarantee contracts? If so, please provide further details | Not Applicable |
| 7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details | Not applicable |
| 8. Other than in house solicitors, can you provide details of those solicitors utilised by Somerset Pension Fund during the year. Please indicate where they are working on open litigation or contingencies from prior years? | <p>We have consulted Osborne Clarke on a range of issues to do with employer admission agreements and related matters.</p> <p>As far as we are aware there has been no direct litigation action in the current financial year and no contingencies exist.</p> <p>From time to time our Custodians file on our behalf in class action law suits relating to securities in the US, UK and Europe. This is a passive process by us and we are never the lead litigants.</p> |

General Enquiries of Management

| Question | Management response |
|--|--|
| 9. Have any of the Somerset Pension Fund's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details | Not Applicable |
| 10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted? | <p>The Somerset Pensions Committee employs an Investment Consultant to sit on the Committee to advise on investment matters. The consultant has been in place for man years.</p> <p>Barnett Waddingham, as the Fund's appointed actuary, is consulted on a range of actuarial matters related to the fund.</p> |
| 11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details | We have considered it. We do not believe we have any exposure to credit losses that would require a provision at this time. |

Fraud

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Somerset Pension Fund's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Somerset Pension Fund's management.

Fraud risk assessment

Page 398

| Question | Management response |
|--|--|
| <p>1. Has Somerset Pension Fund assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Pension Fund's risk management processes link to financial reporting?</p> | <p>We do not believe this to be an issue as no material frauds have been identified during the year. We believe that the risk of unknown material fraud to be low.</p> <p>Internal audit processes are in place and no instances of fraud have been identified in 2021/22.</p> |
| <p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p> | <p>Pension payments in relation to Pensioner deaths not being notified to the Pensions Administration Team.</p> |
| <p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Somerset Pension Fund as a whole, or within specific departments since 1 April 2021? If so, please provide details</p> | <p>Not Applicable</p> |

Fraud risk assessment

| Question | Management response |
|--|---|
| <p>4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p> | <p>Both the Pensions Committee and Pension Board considered the Fund's risk register at every meeting.</p> |
| <p>5. Have you identified any specific fraud risks? If so, please provide details</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Somerset Pension Fund where fraud is more likely to occur?</p> | <p>Pensioner deaths being unreported to the Fund, resulting in the continuation of pension payments to the deceased.</p> <p>Yes, see above.</p> <p>Not applicalbe</p> |
| <p>6. What processes do Somerset Pension Fund have in place to identify and respond to risks of fraud?</p> | <p>The Pensions Administration Team receive regular reports from a national database Informing them of pensioner deaths.</p> |

Fraud risk assessment

Page 400

| Question | Management response |
|--|--|
| <p>7. How do you assess the overall control environment for Somerset Pension Fund, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details</p> | <p>Good overall control environment in place with periodical internal audit reviews carried out, based on perceived level of risk.</p> <p>The Pension Fund is a low risk environment due to high level of regulation, segregation of duties, and check and control in place.</p> <p>We do not believe there are areas where controls are not in place.</p> |
| <p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p> | <p>There is always the potential for misreporting. We believe that the controls in place and detailed reconciliation work that is done that mitigates the risk due to fraud. There is always the potential for genuine human error but this is also mitigated by the controls and reconciliations in place.</p> |

Fraud risk assessment

| Question | Management response |
|---|---|
| <p>9. How does Somerset Pension Fund communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details</p> | <p>The Pension Fund doesn't have any staff. The SCC staff that provide a service to the Fund operate under the normal HR Policies of the Council. All outside organisations contracted by the Fund are bound by strict ethical behaviours contained within their contract?</p> <p>Staff are encouraged to report any concerns about fraud as part of SCC's Whistleblowing Policy. No issues have been reported this year.</p> <p>No issues have been reported in 2021/22.</p> |
| <p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p> | <p>Investments Manager</p> <p>High level of check and control and segregation of duties.</p> |
| <p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p> | <p>No. All elected members on the Pensions Committee and Board are required on an annual basis to provide details of any related party relationships.</p> <p>SCC staff are bound by the Council's Contract Standing Orders to ensure proper procurement practices are followed at all times.</p> |

Fraud risk assessment

| Question | Management response |
|---|---|
| <p>12. What arrangements are in place to report fraud issues and risks to the Audit Committee?</p> <p>How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p> | <p>Any instances of fraud or the identification of the risk of fraud would be reported to Pensions Board by either Internal Audit or SCC's Audit Committee.</p> <p>No instances of fraud have been reported in 2021/22.</p> |
| <p>13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p> | <p>Not Applicable</p> |
| <p>14. Have any reports been made under the Bribery Act? If so, please provide details</p> | <p>Not applicable</p> |

Law and regulations

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that Somerset Pension Fund's operations are conducted in accordance with laws and regulations, including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the body is in compliance with laws and regulations. Where we become aware of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

| Question | Management response |
|--|--|
| <p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Somerset Pension Fund have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Pension Fund's regulatory environment that may have a significant impact on the Pension Fund's financial statements?</p> | <p>SCC staff regularly monitor Pensions Regulations.</p> <p>SCC staff responsible for managing the finances of the Fund regularly check and keep up to date with the LGPS Regulations.</p> <p>No</p> |
| <p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p> | <p>All Pension Fund Policies and Statements are bought to, explained to and approved by the Pensions Board.</p> |
| <p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2021 with an on-going impact on the 2021/22 financial statements? If so, please provide details</p> | <p>Not applicable</p> |
| <p>4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details</p> | <p>Not Applicable</p> |

Impact of laws and regulations

| Question | Management response |
|--|--|
| 5. What arrangements does Somerset Pension Fund have in place to identify, evaluate and account for litigation or claims? | If these occurred they would be reported to Committee by Officers. |
| 6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details | Not applicable |

Related Parties

Matters in relation to Related Parties

Somerset Pension Fund are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by Somerset Pension Fund;
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the Pension Fund;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Pension Fund, or of any body that is a related party of the Pension Fund.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Pension Fund's perspective but material from a related party viewpoint then the Pension Fund must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

| Question | Management response |
|--|---|
| <p>1. Have there been any changes in the related parties including those disclosed in Somerset Pension Fund's 2020/21 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"> the nature of the relationship between these related parties and Somerset Pension Fund whether Somerset Pension Fund has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions | Not applicable |
| <p>2. What controls does Somerset Pension Fund have in place to identify, account for and disclose related party transactions and relationships?</p> | <p>The authorities elected Members are sent an annual questionnaire to identify any material related party transactions, and the findings from the responses are disclosed in the published accounts.</p> <p>The authority reviews existing contractual arrangements to determine whether the authority has significant influence over the other parties due to the considerable proportion of business provided to them by the authority. Any material findings are disclosed in the published accounts.</p> |
| <p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p> | <p>Payments to Brunel, Somerset County Council and Peninsula Pensions follow the controls within the AP part of SAP in response to an invoice raised by those bodies and are fully disclosed in the financial statements</p> |
| <p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p> | <p>The controls are the same for all transactions. There have been no significant transactions outside the normal course of business during the 2021-22 year.</p> |

Going Concern

Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the body's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

Going Concern

| Question | Management response |
|--|--|
| <p>1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by Somerset Pension Fund will no longer continue?</p> | <p>The only statutory service of the Fund is to provide the benefits to members as they fall due. We have processes in place through treasury management to ensure there is sufficient short term cash resources to make payments as they fall due and then long term plans around solvency. Both are key risks on the risk register of the Fund and managed and reported over time.</p> |
| <p>2. Are management aware of any factors which may mean for Somerset Pension Fund that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?</p> | <p>Not applicable</p> |
| <p>3. With regard to the statutory services currently provided by Somerset Pension Fund, does Somerset Pension Fund expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for Somerset Pension Fund to cease to exist?</p> | <p>The payment of benefits is done in conjunction with Peninsula Pensions and this relationship is expected to continue. There are no plans for Somerset Pension Fund to cease</p> |
| <p>4. Are management satisfied that the financial reporting framework permits Somerset Pension Fund to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?</p> | <p>We believe the fund has the financial resources to meet its obligations to pay pensions both in the current year and for many years to come. The investment assets represent in the region of 27 to 28 times the annual payment of benefits and the majority could be liquidated in less than a month is necessary. This gives us sufficient assurance that preparing our financial statements on an on-going basis is appropriate.</p> |

Accounting estimates

Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

| Question | Management response |
|--|---|
| 1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures? | Only those covered in appendix A. There has been no changes in these from the prior financial year |
| 2. How does the Pension Fund's risk management process identify and address risks relating to accounting estimates? | All estimates are made by professional and qualified experts external to management and then scrutinised by management before being used in the financial statements. |
| 3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates? | The methods and assumptions of external experts are scrutinised by management. We do not believe there will be any changes in the methods of external experts for the 2021-22 accounts. |
| 4. How do management review the outcomes of previous accounting estimates? | Estimates in relation to investment asset values are reviewed in the context of moving markets and index moves monthly throughout the year. |
| 5. Were any changes made to the estimation processes in 2021/22 and, if so, what was the reason for these? | Not applicable |

Accounting Estimates - General Enquiries of Management

| Question | Management response |
|---|--|
| 6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates? | All estimates are undertaken by professionally accredited and appropriately qualified external experts and then scrutinised by our experienced and professionally qualified officers. |
| 7. How does the Pension Fund determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts? | Our external experts are both qualified and subject to regulation by their professional body and/or applicable Government financial regulators. Management believe this provides sufficient assurance of their controls and methods. |
| 8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts? | Our external experts are both qualified and subject to regulation by their professional body and/or applicable Government financial regulators. Management believe this provides sufficient assurance of their controls and methods. |
| 9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. | Although we accept the ultimate responsibility for all content of the financial statements management do not make any material accounting estimates, all estimates are made by external qualified and regulated experts. Management therefore concentrate on scrutinising and challenging those external estimates with the external providers before including them in the financial statements |

Accounting Estimates - General Enquiries of Management

| Question | Management response |
|---|--|
| 10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they? | Not applicable |
| 11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable? | The reliance on external qualified and regulated experts satisfies us that the estimates are reasonable |
| 12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ? | The reliance on external qualified and regulated experts, backed up by the assurances of our qualified and experienced officers provides assurance to the audit committee. Further scrutiny of the arrangements is provided by the work of the Pensions Committee and the Pension Board. |

Appendix A Accounting Estimates

| Estimate | Method / model used to make the estimate | Controls used to identify estimates | Whether management have used an expert | Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates | Has there been a change in accounting method in year? |
|------------------------------------|--|---|--|---|---|
| Valuation of the pension liability | Calculations and estimates are undertaken by a qualified external company of actuaries | All elements of the pension liability are an estimate by there very nature. | Yes | The nature of these figures forecasting into the future are based upon the best information held at the current time and are developed by experts in their field. A sensitivity analysis of the value of the liabilities is included in the financial statements | No |
| Level 3 investments | Reliance on external Fund Mangers having assessed the reasonableness of their methods against industry best practice. All Fund managers are subject to regulation by Government Financial regulators | The accounting definition of level three investments means that they must be an estimate as they are not based on observable prices in quoted active market | Yes | A sensitivity analysis of the value assigned to all assets, whether level one, two or three, is included in the financial statements | No |
| Level 2 investments | All level 2 investments are collective investment funds such as unit trusts or ACS's. These Funds price in accordance with the requirements of the relevant financial regulator (UK or EU) | The accounting definition of level two investments means that they must be an estimate as they are not based on observable prices in quoted active | Yes | A sensitivity analysis of the value assigned to all assets, whether level one, two or three, is included in the financial statements | No |



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Somerset County Council

Report of Internal Audit Activity 2022/23







Progress Report – November 2022

Page 417

Agenda item 7

Internal Audit Update – November 2022 – ‘At a Glance’

The Headlines

| | |
|---|---|
|  | <p>No Assurance or Limited Assurance Opinion based reviews in the period to Report</p> <ul style="list-style-type: none"> • One Limited |
|  | <p>Progress against the 2022/23 plan</p> <ul style="list-style-type: none"> • 22 planned reviews and support activities completed • No reviews at draft stage • 20 reviews in progress/on-going • 24 additional grants certified |
|  | <p>Follow-ups in the period</p> <p>Two completed. For one there is evidence that risks have reduced sufficiently, and no further follow-up work will be undertaken. One will require further follow up work.</p> |
|  | <p>Additions to the Plan</p> <p>Four new reviews or support activities added to the plan following officer requests. These additions relate to Local Government Reorganisation (LGR).</p> |
|  | <p>Monitoring of agreed management actions</p> <p>We continue to monitor implementation of agreed management actions. There are 34 overdue actions, compared to 31 in September 2022. 25 of these actions are rated Priority 1 or 2.</p> |
|  | <p>Range of innovations and enhancements made to our internal audit process throughout the year</p> <p>Data analytics continues to drive and support reviews. Comparative benchmarking exercises offer useful insight and suggested practices.</p> |

Internal Audit Assurance Opinions 2022/23

| | YTD |
|---------------------|-----------|
| Substantial | 0 |
| Reasonable | 1 |
| Limited | 2 |
| No Assurance | 0 |
| Advisory and Grants | 14 |
| Follow Up | 5 |
| Total | 22 |

Internal Audit Agreed Actions 2022/23

| | YTD |
|--------------|-----------|
| Priority 1 | 3 |
| Priority 2 | 7 |
| Priority 3 | 6 |
| Total | 16 |

Summary

As part of our rolling plan reports, we will detail progress against the approved plan and any updates in scope and coverage.

We will also provide details of any significant risks that we have identified in our work, along with the progress of mitigating significant risks previously identified through audit activity.

The contacts at SWAP in connection with this report are:

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Chief Executive

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Summary

This is the November 2022 progress update for 2022/22 and reports against the plan agreed by this Committee in March 2022. The schedule provided at **Appendix D** details progress made to date and new work agreed.

The assurance opinion ratings have been determined in accordance with the Internal Audit “Audit Framework Definitions” as detailed at **Appendix A** of this document. The Committee can take assurance that improvement actions have been agreed with management to address each finding reported.

To assist the Committee in its important monitoring and scrutiny role, in those cases where weaknesses have been identified in service/function reviews that are considered to represent significant service risks, a summary of the key audit findings that have resulted Limited assurance opinions can be found at **Appendix B**. There was one Limited opinion audit to report over the period.

A follow-up review is performed in respect of all Limited assurance opinion audits. The results of follow-up reviews performed in the period can be found in **Appendix C**. This is important to provide evidence that recommendations have been implemented to reduce areas of risk identified. Two follow-up reviews were completed in the period. For one review, there was sufficient progress in implementing the agreed actions and no further audit work is required. For the other we concluded that further work is needed.

As well as assurance provided by follow-up audits, managers responsible for agreed actions relating to No or Limited assurance audits have provided us with progress updates. An updated tracked action position is included on page 4.

Appendix E is a summary of work agreed and completed in addition to the core Internal Audit Plan around the Local Enterprise Partnership (LEP).

Internal Audit Plan Update

Our audit plan coverage assessment is designed to provide an indication of whether we have provided sufficient, independent assurance to monitor the organisation’s risk profile effectively.





For those areas where no audit coverage is planned, assurance should be sought from other sources to provide a holistic picture of assurance against key risks.

Page 420

SWAP audit plan coverage against strategic risks

The table below maps audit work to SCC’s key strategic risks to provide assurance of coverage. As the year builds and more work is completed, coverage across the key risk areas has increased. ‘Adequate’ coverage reflects delivery of planned assurance levels.

| Strategic Risk | Coverage |
|-----------------------------------|---|
| Climate Change | <ul style="list-style-type: none"> Climate Change Strategy |
| Organisational resilience | <ul style="list-style-type: none"> Adults Workforce Planning LGR workstream support |
| Adults Sufficiency and Capacity | <ul style="list-style-type: none"> Athena Contract Eclipse Benefits Realisation Adults Workforce Planning |
| Supplier Disruption | <ul style="list-style-type: none"> Contract Management Supplier Resilience Follow Up |
| Sustainable MTFP | <ul style="list-style-type: none"> Establishment Control Good Financial Governance Baseline Fraud Assessment Follow Up Highways Application for Payment Follow Up |
| Safeguarding Children | <ul style="list-style-type: none"> Children Missing from Education Safe Recruitment Follow Up Supporting Families Programme |
| Local Government Reorganisation | <ul style="list-style-type: none"> LGR workstream support (See Appendix D table 2) New Finance system support |
| Market Management and development | <ul style="list-style-type: none"> Contract Management LEP grants |

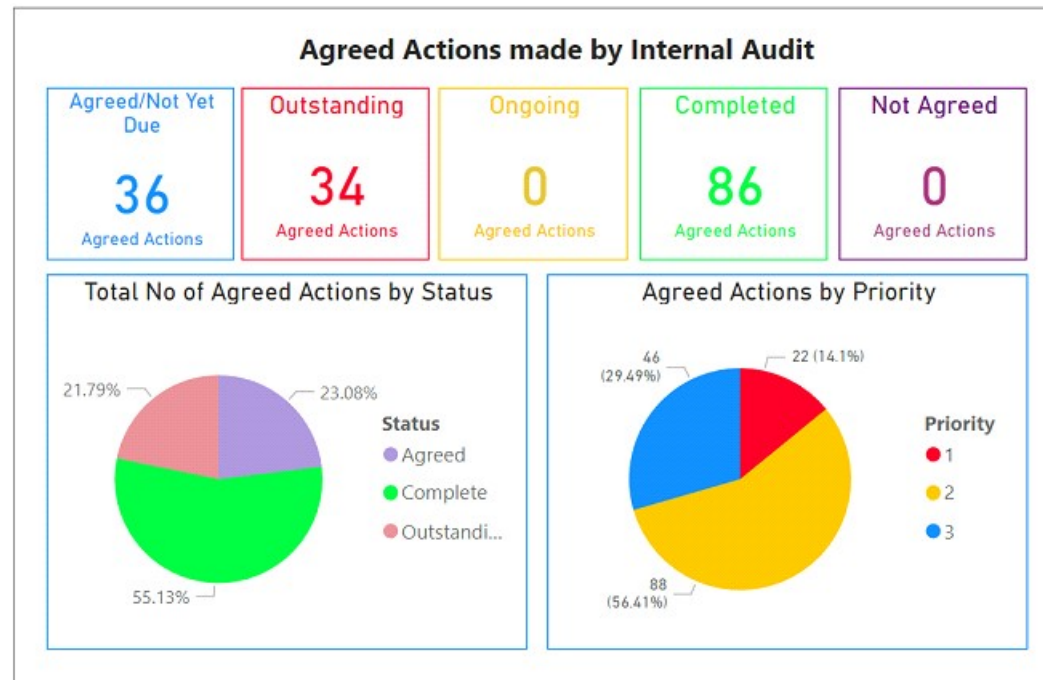
| | |
|---|----------------------|
|  | Good coverage |
|  | Adequate coverage |
|  | Coverage in progress |
|  | No coverage |

Internal Audit Plan Update

Follow up work confirms the responsive nature of management in implementing agreed actions to mitigate exposure to areas of risk.

Implementation of Agreed Management Actions

As well as assurance provided by follow-up audits, managers responsible for agreed actions relating to limited assurance audits have provided progress updates to internal audit. The chart below shows the current position after accounting for additional officer self-assessments.



There are 34 overdue actions, compared to 31 in September 2022. 25 of these actions are rated Priority 1 or 2. These actions relate to:

- Berkley School Financial Controls
- CSC Training and Safeguarding
- Mental Health – Financial Decision Making
- Safeguarding – Complaints and Concerns

Internal Audit Plan Update

Follow up work confirms the responsive nature of management in implementing agreed actions to mitigate exposure to areas of risk.

Implementation of Agreed Management Actions Continued

- Schools – Community Learning Partnerships
- Schools Balances
- Transport Budget Governance
- Vendor Management

We did not request management updates for Mental Health or Transport Budget Governance because the Committee has requested relevant officers attend the next Committee meeting to provide updates directly.

Follow ups audits for Berkley School and Vendor Management are now in progress. We have included a follow up of CSC Training and Safeguarding in the 2023/24 Internal Audit Plan.

Planned follow ups for Safeguarding – Complaints and Concerns, Community Learning Partnerships and School Balances have been deferred to 2023/24 – please see **Appendix D** for further information.

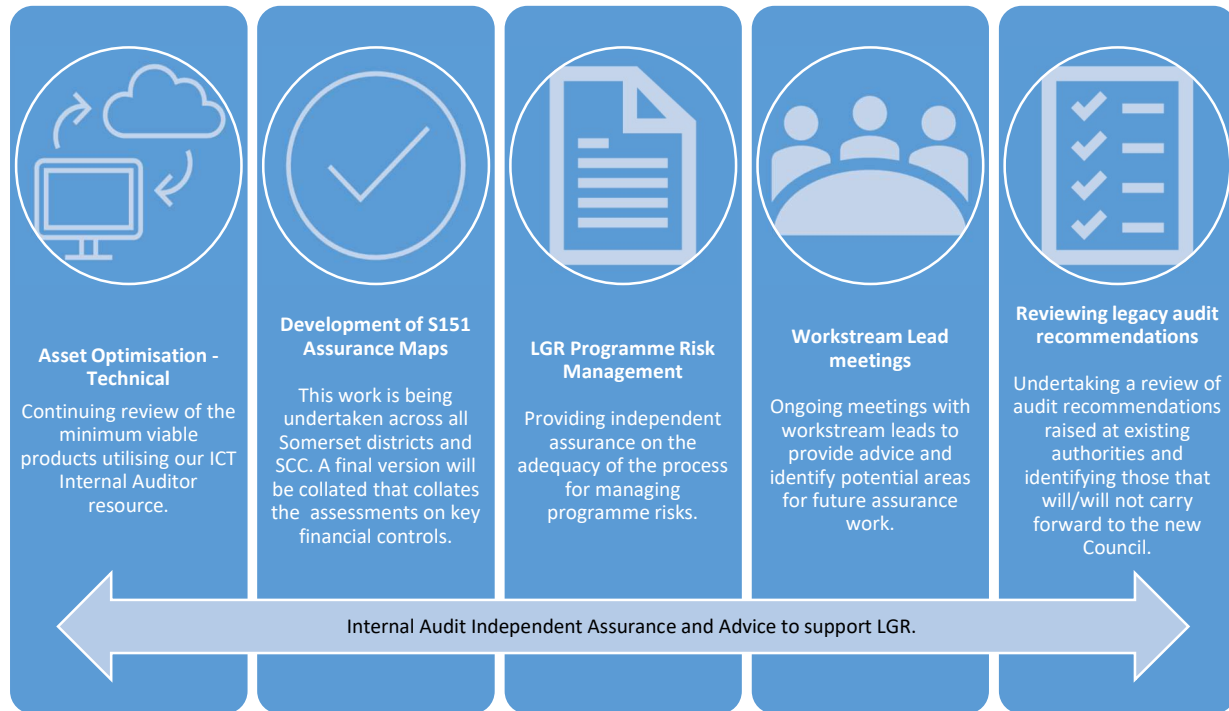
Internal Audit Plan Update

Supporting the formation of the new unitary authority by providing advice and independent assurance on activities being undertaken via the workstreams.

Page 423

Support for LGR

As part of our planning for 2022/23 we have included time to provide Unitary Programme Assurance Work as well as Unitary Workstream support. Most Programme Quality Assurance will be covered by the PWC Quality Reviews. We should be able to take assurance from their work to contribute to the Internal Audit Annual Opinion to avoid any duplication. We will provide a critical friend role to LGR work supporting delivery of outcomes. This is advisory/consultative work with rapid feedback via meetings/e-mail, or brief summary reports. Some of the areas we are focussing on are detailed in the chart below.



| Assurance Definitions | |
|-----------------------|--|
| No Assurance | Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited. |
| Limited | Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited |
| Reasonable | There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited. |
| Substantial | A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited. |

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

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



Children Missing from Education – Final Report – September 2022

Audit Objective

To provide assurance that the Council is fulfilling its statutory responsibility under section 436A of the Education Act 1996 to support schools in investigating children not in education, absent from education and cases of concern across Somerset.

Assurance Opinion



Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.

Number of Actions

| Priority | Number |
|--------------|----------|
| Priority 1 | 1 |
| Priority 2 | 5 |
| Priority 3 | 0 |
| Total | 6 |

Risks Reviewed

The Council fails to deliver its statutory responsibility to ensure that all School age children in the local area are engaged in education; leading to decreased educational attainment amongst absentees, potential negative impacts upon their health and welfare and the Council incurring legal, financial, and reputational damage.

Assessment

Medium

Key Findings



Officers believe the Education Safeguarding Service (ESS) is under-resourced to the point that there is a risk the council will not deliver its statutory responsibilities. There are several longstanding vacancies and significant levels of long-term absence. The ESS has not conducted a review to establish required resource levels but expects a shortfall due to new statutory obligations.



There is no overall Children Missing Out On Education (CMOOE) or Children Missing Education (CME) policy. Existing CME guidance documents are outdated.



There is no structured ESS-specific training programme. Training on CME and CMOOE is not standardised or formalised.



CME cases are not always categorised correctly. We found non-CME cases recorded as CME on Capita and in the team's Allocations Tracker. We reviewed a sample of cases and found that in almost all instances the dates recorded on Capita did not match source documentation. The ESS do not perform data quality checks.



There are no performance reports, performance reporting mechanisms or KPIs relating to CME interventions.

Audit Scope

A summary of controls we assessed in this audit is included below:

- The number of staff required to operate the service has been established and is adequate to cover the demands of CME caseloads;
- Policies, procedures, and training;
- There are mechanisms in place to ensure that CME cases are identified, allocated and processed efficiently from identification through to the closure of cases; and
- Performance monitoring is undertaken periodically and reported to stakeholders.

The CME data we requested for sample testing purposes covered the 2021/22 academic year (September 2021-July 2022).

Other Relevant Information

The ESS has agreed to implement six actions by 31st July 2023. We will include a follow-up review in the 2023/24 Somerset Council Internal Audit Plan.

The ESS will be affected by an Education and Inclusion Services (EIS) restructure that is expected to conclude in December 2022, ahead of the wider LGR (Local Government Reorganisation) in April 2023. The restructure will establish new teams that will cover the ESS's existing responsibilities, but it is unclear whether this will lead to additional resourcing. The roles referred to within our audit report may no longer exist after the restructure. This means EIS may need to reallocate responsibility for the audit actions agreed. Actions will be tracked by SWAP.

School Exclusion Data Follow Up – Final Report – August 2022



Follow Up Audit Objective

To provide assurance that agreed actions to mitigate against risk exposure identified within the 2021/22 Limited opinion School Exclusion Data audit have been implemented.

Follow Up Progress Summary

| Priority | Complete | In Progress | Not Started | Summary |
|------------|----------|-------------|-------------|---------|
| Priority 1 | 0 | 0 | 0 | 0 |
| Priority 2 | 1 | 2 | 2 | 5 |
| Priority 3 | 0 | 0 | 1 | 1 |
| Total | 1 | 2 | 3 | 6 |

Follow Up Assessment

We audited Schools Exclusion Data in 2021/22. Our objective was to verify whether the council received timely and consistent exclusion data from schools, and that the data was being used effectively to identify and address issues. We gave a Limited assurance opinion, necessitating this 2022/23 follow up audit.

In this audit, we found that most of the actions had not progressed further than an initial discussion. Our key findings are summarised below.

Key Findings



In the original review, we recommended the council conduct a review project to address most of the weaknesses we identified. In this follow up audit, we were advised an initial project meeting was held. However, the attendees determined a project was not possible with current resource and staffing limitations. The actions were not assigned to an appropriate manager who could progress them any further.



The School Exclusion Data Dashboard has been updated to include rates of exclusion and benchmarking against regional and national data.

Additional Information

Because there has been limited progress, we will need to conduct a further follow up audit in 2023/24.

Effectiveness of the Somerset Schools Forum - Final Report – November 2022



Follow Up Audit Objective

To provide assurance that agreed actions to mitigate against risk exposure identified within the 2020/21 Limited opinion audit of the Effectiveness of the Somerset Schools Forum report have been implemented.

Follow Up Progress Summary

| Priority | Complete | In Progress | Not Started | Summary |
|------------|----------|-------------|-------------|---------|
| Priority 1 | 0 | 0 | 0 | 0 |
| Priority 2 | 1 | 1 | 0 | 2 |
| Priority 3 | 6 | 2 | 0 | 8 |
| Total | 7 | 3 | 0 | 10 |

Follow Up Assessment

The original audit of the Effectiveness of the Somerset Schools Forum was completed in October 2021 and received a Limited assurance opinion. The objective of the audit was to establish the extent to which current governance and decision-making arrangements support effective management of the school budget and achievement of corporate objectives.

In this follow up audit we found the majority of actions have now been completed. Key findings from the audit follow up have been summarised below.

Key Findings



Education Strategy – A new Education Strategy Board is now in place and the Board is meeting monthly to discuss the production of the Education Strategy. An update was also presented to the Schools Forum in January 2022. Plans are in place for the Strategy to be completed by December 2022.



Deficit Management Plan (DMP) - A DMP was presented at the February 2022 Schools Forum meeting. The DMP explains the council’s priorities and specifies how the council plans to eliminate the in-year deficit on the High Needs Block by 2023/24. However, it should be noted that the DMP is being reviewed again as part of the team’s work with the Delivering Better Value programme with the Department for Further Education and further changes will need to be made.



Induction Pack – Although regular informal meetings have been held with a focus on CPD, the induction pack is not yet complete. However, the new Clerk is planning to complete this by the end of 2022.



Priority 3 Actions – A Constitution was drafted and ratified by the Forum in November 2021. Since then, further changes have been made and a revised Constitution was published in July 2022. The new Schools Forum Clerk has completed the Self-Assessment Checklist and is using the results of this checklist and the Operational and Good Practice Guide to make further improvements. The Clerk plans to add further information on the voting process the Constitution as part of the next annual review.

Further Information

We have identified sufficient progress against most of the agreed actions and therefore will now cease monitoring the outstanding actions.

Table 1: SCC Internal Audit Plan

| Audit Type | Audit Name | Status | Opinion | No of Rec | 1 = | ↔ | 3 = |
|---------------------|---|----------|------------|-----------|----------------|---|--------|
| | | | | | Major | | Medium |
| | | | | | Recommendation | | |
| | | | | | 1 | 2 | 3 |
| Complete | | | | | | | |
| Assurance | School Condition Surveys | Complete | Limited | 6 | 2 | 2 | 2 |
| Follow Up | Mental Health – Care Plan Reviews and Financial Decision Making | Complete | N/A | | | | |
| Follow Up | Supplier Resilience | Complete | N/A | | | | |
| Assurance | LEP Financial Controls | Complete | Reasonable | 3 | 0 | 0 | 3 |
| Follow Up | Highways Maintenance – Application for Payment | Complete | N/A | | | | |
| Grant Certification | BDUK Grant Certification | Complete | Certified | | | | |
| Grant Certification | Universal Drug Treatment Grant | Complete | Certified | | | | |
| Advisory | Audit Committee Training following Elections | Complete | N/A | | | | |
| Advisory | Good Financial Governance Checklist | Complete | N/A | | | | |
| Grant Certification | Supporting Families Claim: May 2022 | Complete | Certified | 0 | 0 | 0 | 0 |
| Assurance | Children Missing from Education | Complete | Limited | 6 | 1 | 5 | 0 |
| Follow Up | School Exclusion Data | Complete | N/A | | | | |
| Grant Certification | Supporting Families Claim: September 2022 | Complete | Certified | 1 | 0 | 0 | 1 |
| Follow Up | Effectiveness of Schools Forum | Complete | N/A | | | | |
| Grant Certification | Contain Outbreak Management Fund (COMF) | Complete | Certified | | | | |

Page 428

| Audit Type | Audit Name | Status | Opinion | No of Rec | 1 = | ↔ | 3 = |
|----------------------------|---|-------------|---------|-----------|----------------|---|--------|
| | | | | | Major | | Medium |
| | | | | | Recommendation | | |
| In progress/Ongoing | | | | | | | |
| Grant Certification | Local Transport Capital Block Funding Grant (21/22 audit) | In progress | | | | | |
| Assurance | Athena Contract | In progress | | | | | |
| Assurance | Contract Management | In progress | | | | | |
| Follow Up | Baseline Assessment of Maturity in Relation to Fraud | In progress | | | | | |
| Advisory | Cifas Support – Blue Badges | Ongoing | | | | | |
| Assurance | Public Health – Reaching Areas of Deprivation | In progress | | | | | |
| Assurance | Establishment Control | In progress | | | | | |
| Grant Certification | Supporting Families Programme Claims | Ongoing | | | | | |
| Advisory | New Finance System – Build Controls | In progress | | | | | |
| Assurance | Schools Financial Value Standard (SFVS) | In progress | | | | | |
| Follow Up | Children’s – Berkley School Financial Review | In progress | | | | | |
| Follow Up | Vendor Management | In progress | | | | | |
| Follow Up | Commissioning and Delivery of New Schools | In progress | | | | | |
| Assurance | Climate Change Strategy | In progress | | | | | |

| Audit Type | Audit Name | Status | Opinion | No of Rec | 1 = | ↔ | 3 = |
|-------------------------|---|------------------|---------|-----------|----------------|---|--------|
| | | | | | Major | | Medium |
| | | | | | Recommendation | | |
| Waiting to Start | | | | | | | |
| Assurance | Adults – Eclipse Benefits Realisation | Waiting to Start | | | | | |
| Follow Up | Adults – Quality Assurance Framework | Waiting to Start | | | | | |
| Assurance | Adults – Workforce Planning | Waiting to Start | | | | | |
| Grant Certification | BDUK Milestone Testing | Waiting to Start | | | | | |
| Follow Up | Children’s – Safe Recruitment | Waiting to Start | | | | | |
| Assurance | Flood and Water Management | Waiting to Start | | | | | |
| Advisory | Fraud related members and officers training | Waiting to Start | | | | | |
| Grant Certification | Local Authority Bus Subsidy (Revenue) Grant Determination 2021/22 | Waiting to Start | | | | | |
| Grant Certification | Local Transport Capital Block Funding including the Pothole Action Fund | Waiting to Start | | | | | |
| Advisory | New Finance System – Data Validation | Waiting to Start | | | | | |
| Assurance | Whistleblowing | Waiting to Start | | | | | |
| Grant Certification | Supporting Families Claim: November 2022 | Waiting to Start | | | | | |
| Assurance | Schools Financial Value Standard: School 1 | Waiting to Start | | | | | |
| Assurance | Schools Financial Value Standard: School 2 | Waiting to Start | | | | | |
| Assurance | Schools Financial Value Standard: School 3 | Waiting to Start | | | | | |

| Audit Type | Audit Name | Status | Opinion | No of Rec | 1 = | ↔ | 3 = |
|-------------------------------|---|------------------|---|-----------|----------------|---|--------|
| | | | | | Major | | Medium |
| | | | | | Recommendation | | |
| | | | | | 1 | 2 | 3 |
| Assurance | Schools Financial Value Standard: School 4 | Waiting to Start | | | | | |
| Assurance | Schools Financial Value Standard: School 5 | Waiting to Start | | | | | |
| Assurance | Schools Financial Value Standard: School 6 | Waiting to Start | | | | | |
| Deferrals and Removals | | | | | | | |
| Follow Up | Career Development and Pathways | Removed | Actions to be addressed through the People workstream. | | | | |
| Follow Up | Cash Handling | Removed | New finance system being implemented. Actions to be addressed via Finance workstream. | | | | |
| Assurance | Charging for Services | Removed | Fees are being aligned for the new Somerset Council, so there is limited value in reviewing current arrangements. | | | | |
| Follow Up | Compliance with Corporate Purchasing Policy | Removed | Follow up conducted last year showed some progress made. Actions to be addressed via Finance workstream. | | | | |
| Follow Up | Corporate Management of Health and Safety | Removed | Health and safety arrangements are being reviewed for LGR. Actions to be addressed via People workstream. | | | | |
| Follow Up | Creditors | Removed | New finance system being implemented. Actions to be addressed via Finance workstream. | | | | |
| Follow Up | Debt Management | Removed | New finance system being implemented. Actions to be addressed via Finance workstream. | | | | |
| Assurance | Adults – Financial Assessments | Deferred | Deferred due to forthcoming reform. Deferral agreed with the Director – Adults Services. | | | | |
| Follow Up | Adults – Imperium/Diverse Rec Contract | Removed | Removal agreed with the Director – Adults Services. | | | | |
| Advisory | Fraud Recruitment and Selection | Deferred | Deferred to Q1 2023-24 and look to build in fraud checks as part of recruitment process. | | | | |
| Assurance | Finance – Capital Key Controls | Deferred | New finance system being implemented. External audit will cover during preparation of the accounts. | | | | |

| Audit Type | Audit Name | Status | Opinion | No of Rec | 1 = Major | ↔ | 3 = Medium |
|---------------------|--|----------|---|----------------|-----------|---|------------|
| | | | | Recommendation | | | |
| | | | | 1 | 2 | 3 | |
| Follow Up | Children’s – School Balances | Deferred | Advised by Schools Finance actions are not yet implemented due to staff turnover. | | | | |
| Follow Up | Children’s – Community Learning Partnerships | Deferred | Advised by Schools Finance actions are not yet implemented due to staff turnover. | | | | |
| Grant Certification | Bus Recovery Grant | Deferred | The Government has extended this grant to April 2023, so it cannot be audited before 2023/24. | | | | |
| Grant Certification | Emergency Active Travel Grant | Deferred | This grant cannot be audited before it is expended. Finance projections indicate the grant will be spent by the end of 2022/23. | | | | |
| Grant Certification | Standard Highways Grant (DFT Funding) | Removed | Added to the plan in error; this is the same as the Local Transport Capital Block grant already included. | | | | |
| Assurance | CDM Regulations (Construction Design Management) Maintenance and Infrastructure Highways | Deferred | Deferred to make way for LGR Programme Risk Management audit. | | | | |
| Assurance | Property – Compliance with Regulations | Deferred | Deferred to make way for LGR Programme Risk Management audit. | | | | |
| Assurance | Children’s – Recruitment of School Head Teachers and Staff | Deferred | Deferred due to LGR support requests | | | | |
| Follow Up | Children’s SEND – Costed Packages | Deferred | Deferred due to Education & Inclusion restructure | | | | |
| Follow Up | Education Safeguarding Complaints & Concerns | Deferred | Deferred due to Education & Inclusion restructure | | | | |
| Grant Certification | Test and Trace Support Grant | Removed | This grant was administered by the district councils, so there is no apparent requirement to audit. | | | | |
| Assurance | Heathfield School Financial Controls | Removed | Financial control assessment recently completed by Education Financial Services. Replaced with an additional SFVS school audit. | | | | |

Table 2: LGR Support & Assurance Work

| Audit Type | Audit Area | Status | Opinion | No of Rec | 1 – Major 3 – Minor | | | Comments |
|----------------------------|--|-------------|----------|-----------|------------------------|---|---|-------------------------------|
| | | | | | 1 | 2 | 3 | |
| Complete | | | | | | | | |
| Advisory | PCIDSS | Complete | Advisory | - | - | - | - | |
| Advisory | Data Centre | Complete | Advisory | - | - | - | - | |
| Advisory | IT Minimum Viable Products | Complete | Advisory | - | - | - | - | |
| Advisory | M365 and Active Directory | Complete | Advisory | - | - | - | - | |
| Advisory | Cyber Security Strategy Framework | Complete | Advisory | | | | | |
| Advisory | Cyber Security Training and Awareness | Complete | Advisory | | | | | |
| Advisory | Disaster Recovery and Incident Response | Complete | Advisory | | | | | |
| In progress/Ongoing | | | | | | | | |
| Advisory | Risk Management Workstream Support | Ongoing | Advisory | - | - | - | - | |
| Advisory | Asset Optimisation: Technical Workstream Support | Ongoing | Advisory | - | - | - | - | |
| Advisory | New: Local Community Networks (Support) | In Progress | Advisory | - | - | - | - | |
| Advisory | S151 Assurance Map | In progress | Advisory | - | - | - | - | |
| Assurance | New: LGR Programme Risk Management | In progress | | | | | | New request from LGR Director |
| Advisory | Legacy Audit Recommendations & AGS Actions | In progress | Advisory | - | - | - | - | |

| Audit Type | Audit Area | Status | Opinion | No of Rec | 1 – Major 3 – Minor | | | Comments |
|-------------------------|--|------------------|----------|-----------|------------------------|---|---|-------------------------|
| | | | | | 1 | 2 | 3 | |
| Waiting to Start | | | | | | | | |
| Advisory | New: Service Alignment Strategy and Policy Review | Waiting to Start | Advisory | - | - | - | - | |
| Assurance | Business Continuity | Waiting to Start | | | | | | |
| Assurance | Payroll – transfer of district staff | Waiting to Start | | | | | | Post-transfer assurance |
| Advisory | New: Tech Forge Data Validation | Waiting to Start | Advisory | - | - | - | - | |

Page 434

The follow table provides members of the Audit Committee with an overview of the additional work SWAP has undertaken on behalf of SCC during 2022-23 in addition to the core partner plan. The list below provides a summary of the LEP grants signed off during 2022-23 as Somerset County Council is the administering body.

| Audit Type | Audit Name | Status | Opinion | No of Rec | 1 = | ↔ | 3 = |
|---------------------|---|----------|------------------|-----------|----------------|---|--------|
| | | | | | Major | | Medium |
| | | | | | Recommendation | | |
| Complete | | | | | | | |
| Grant Certification | ERDF – Co Adapt on-the-spot | Complete | Certified | | | | |
| Grant Certification | Getting Building Fund – M5 J23 Dunball 21/22 | Complete | Certified | | | | |
| Grant Certification | Getting Building Fund – Trenchard Way 20/21 | Complete | Certified | | | | |
| Grant Certification | Getting Building Fund – Trenchard Way 21/22 | Complete | Certified | | | | |
| Grant Certification | Growth Deal – Bruton 20/21 | Complete | Certified | | | | |
| Grant Certification | Growth Deal – Bruton 21/22 | Complete | Certified | | | | |
| Grant Certification | Growth Deal – iAero fit out 20/21 | Complete | Certified | | | | |
| Grant Certification | Growth Deal – iAero fit out 21/22 | Complete | Certified | | | | |
| Grant Certification | Growth Deal – M5 J25 | Complete | Certified | | | | |
| Grant Certification | Growth Deal – Somerset Rivers Authority | Complete | Certified | | | | |
| Grant Certification | Growth Deal – Taunton Digital Innovation Centre | Complete | Certified | | | | |
| Grant Certification | Growth Deal – Toneway (18/19) | Complete | Certified | | | | |
| Grant Certification | Growth Deal – Toneway (21/22) | Complete | Certified | | | | |
| Grant Certification | Growth Deal – Wells | Complete | Certified | | | | |

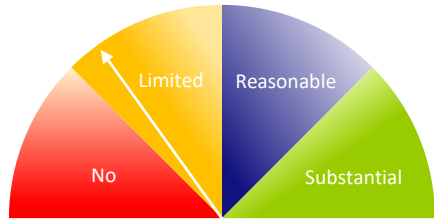
Page 435

| Audit Type | Audit Name | Status | Opinion | No of Rec | 1 = | ↔ | 3 = |
|-------------------------|---|------------------|------------------|-----------|----------------|---|--------|
| | | | | | Major | | Medium |
| | | | | | Recommendation | | |
| | 1 | 2 | 3 | | | | |
| Grant Certification | Growth Deal – Wiveliscombe | Complete | Certified | | | | |
| Grant Certification | Growth Deal – YWC | Complete | Certified | | | | |
| Grant Certification | Growth Hub – Core Grant | Complete | Certified | | | | |
| Grant Certification | Growth Hub – Peer Networks | Complete | Certified | | | | |
| Grant Certification | LEP Growth Deal – Broadband | Complete | Certified | | | | |
| Grant Certification | LEP Growth Deal – Mobile Boost 20/21 and 21/22 | Complete | Certified | | | | |
| Grant Certification | Wiveliscombe Enterprise Centre Office Rental Accounts | Complete | Certified | | | | |
| Grant Certification | Bruton Enterprise Centre Office Rental Accounts | Complete | Certified | | | | |
| Grant Certification | Wells Technology Enterprise Centre Office Rental Accounts | Complete | Certified | | | | |
| Grant Certification | ERDF – Triple C Final Claim | Complete | Certified | | | | |
| Waiting to Start | | | | | | | |
| Grant Certification | ERDF – Co Adapt | Waiting to Start | N/A | | | | |
| Advisory | New: Heart of the South West LEP – Growing Places Fund | Waiting to Start | N/A | | | | |

Audit Objective

To establish the extent to which transport budgets are governed and controlled effectively.

Assurance Opinion



Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.

Number of Actions

| Priority | Number |
|--------------|-----------|
| Priority 1 | 2 |
| Priority 2 | 4 |
| Priority 3 | 4 |
| Total | 10 |





Risk Reviewed

Governance arrangements and budget controls are inadequate or not in place. This contributes or directly leads to avoidable budget overspends.

Assessment

Medium

Key Findings

| | |
|--|---|
|  | The council has overspent its combined home to school transport budgets for the last five years. It is projecting a £1.9m (13%) overspend for 2021/22. There is no strategy for controlling this expenditure. |
|  | Responsibility and accountability for transport sourcing and expenditure is fragmented. While Inclusion determines whether a child is eligible for transport, they have little or no involvement in agreeing the transport subsequently procured. Therefore, they have little direct control over expenditure. |
|  | There are significant concerns about Capita EMS system data. Management do not have ready access to a report that includes clear financial and contractual information for all routes. There are anomalies in route and forecasting reports which may impact on budget monitoring. Further investigation is needed to identify and address the root causes. |
|  | The council is replacing the transport management systems, Capita EMS and Trapeze, with a new combined system, MTC. This was expected to be in place by April 2022 but has been delayed until mid-2023. Finance has not been involved in this project to date. |

Audit Scope

The following areas were in scope:

- Clarity of accountability for budget setting, forecasting and decision-making;
- Invoice receipt, processing, and payment checks;
- Authorisation protocols, including contract increases and whether appropriate officers are included in SAP delegation tables;
- System adequacy, interfaces, and reporting;
- Budget monitoring and forecasting.

We have not conducted any review of the process for establishing a child's eligibility for transport.

Other Relevant Information

Finance and Children's Services requested this review after identifying weaknesses in governance and control of transport budgets, specifically SEND transport. Concerns raised included incorrect authorisation of expenditure, lack of clarity over budget holder responsibilities and decision making, and unexplained increases in forecast expenditure.

Transport to school for eligible children is a statutory service. Home to school transport has been an area of pressure for many years. Increasingly adverse market conditions and year-on-year increases in the proportion of pupils with Education, Health and Care Plans, who may require more specialist transport arrangements, are driving growing expenditure.

The council has agreed to implement ten actions by 1st September 2023. We will need to conduct a follow up audit to confirm the actions have been implemented.

| Finding 1.1: Decision making and strategy | Action | | | | | | | | | | | | | |
|---|--|-----------------------|-----------------|----------|-----------------------|-------|----------------------------|--|--|--|------------------|--------------------------------|--|--|
| <p>The named budget holders for home to school cost centres are Inclusion strategic managers, but in practice they have little direct control over transport expenditure. The authority to award and amend home to school transport contracts is delegated to Transporting Somerset. There is an inherent conflict between this delegation and the need for Inclusion to exercise control over the budget. There is no document setting out responsibilities or accountabilities of Inclusion and Transporting Somerset for home to school transport.</p> <p>Transport do not cite Inclusion services on procurement decisions as they occur, unless there is a significant cost increase, or Transport cannot find an external operator. Most of the time, Transporting Somerset notify Inclusion of contract awards and changes retroactively. This is due to the volume of activity. However, the council should consider how services commissioning transport can become more involved in decision making.</p> <p>The council has overspent its combined home to school transport budgets for the last five years. It is projecting a £1.9m (13%) in-year overspend. Overspends have been projected on every budget monitoring report for 2021/22 (see Appendix 4). The council has introduced cost reduction measures, such as Personal Travel Payments, but is heavily reliant on contracted operators. There is no plan or wider strategy to control home to school transport expenditure.</p> | <p>Managers in the Transport, Inclusion and Finance service should work together to establish a joint strategy for controlling home to school transport costs. This should consider whether there is a case for further investment in the internal fleet, additional funding, further potential cost avoidance measures, and how to increase coordination between services.</p> <p>In the interim, the council may wish to consider introducing an Inclusion post in Transport that would facilitate continual challenge and monitoring.</p> <table border="1" data-bbox="1137 678 2119 948"> <tr> <td data-bbox="1137 678 1384 726">Priority</td> <td data-bbox="1384 678 1630 726" style="background-color: red; color: white; text-align: center;">1</td> <td data-bbox="1630 678 1865 726">SWAP Reference</td> <td data-bbox="1865 678 2119 726">46733</td> </tr> <tr> <td data-bbox="1137 726 1630 901">Responsible Officer</td> <td colspan="3" data-bbox="1630 726 2119 901">Strategic Manager – Access & Additional Needs Service Manager – Education, Inclusion and Schools Service Manager – Transporting Somerset</td> </tr> <tr> <td data-bbox="1137 901 1630 948">Timescale</td> <td colspan="3" data-bbox="1630 901 2119 948">1st September 2022</td> </tr> </table> | | Priority | 1 | SWAP Reference | 46733 | Responsible Officer | Strategic Manager – Access & Additional Needs Service Manager – Education, Inclusion and Schools Service Manager – Transporting Somerset | | | Timescale | 1 st September 2022 | | |
| Priority | 1 | SWAP Reference | 46733 | | | | | | | | | | | |
| Responsible Officer | Strategic Manager – Access & Additional Needs Service Manager – Education, Inclusion and Schools Service Manager – Transporting Somerset | | | | | | | | | | | | | |
| Timescale | 1 st September 2022 | | | | | | | | | | | | | |

| Finding 1.2: Budget forecasting | Action | | |
|--|--|-----------------------|-------|
| <p>Finance use the Capita Forecast Report, which provides an overview of actual and projected expenditure for transport routes recorded in Capita, and actual expenditure recorded in SAP, to produce outturn expenditure projections. Finance, Transport, and Inclusion officers all reported concerns about the accuracy of the Forecast Report. The report does not include a calculation breakdown, so route forecasts cannot be checked easily.</p> <p>We reviewed a forecast report and found it included 11 routes where costs already recorded were fully offset by negative spend forecasts. We requested Transporting Somerset explain the reasons for these forecasts, and they were unable to do so.</p> <p>During a budget monitoring meeting we observed, attendees identified that the report does not pick up actual expenditure for routes operated by Somerset Accessible Transport (SAT - internal fleet) because this is not paid by invoice. There were also routes that had ceased, or were never used, where full year expenditure was being projected. This means budget monitoring forecasts may include expenditure that has already been incurred, or will not occur, and therefore they may be overstated.</p> <p>Though Finance and Transport have escalated concerns to IT, a cause has not been identified.</p> <p>Transporting Somerset was expecting to replace Capita with a new system, MTC, in April 2022. This has now been delayed to until mid-2023. This means there is now a greater need to ensure the Forecast Report is accurate, and necessary care taken to reduce the likelihood of inflated forecasts.</p> | <p>Inclusion, Transporting Somerset, and Finance should escalate concerns regarding Capita data to IT for investigation, with support from senior management.</p> <p>Transporting Somerset should ensure the new MTC system has a forecasting facility, clarify how the system calculates forecasts, and test for accuracy during implementation phase.</p> <p>The services above should consider the following mitigations until MTC is implemented:</p> <ul style="list-style-type: none"> • Finance and Transport to agree a cut-off date each month for Finance to run to Forecast report. • Finance and Transport to review the forecast report together to identify affected SAT/inactive routes each month and remove before the budget monitoring report is produced. This could be made easier if the Forecast Report can be amended to include the operator details. | | |
| Priority | 1 | SWAP Reference | 46731 |
| Responsible Officer | Strategic Manager – Business Support (Corporate and Children’s Services) Service Manager – Education, Inclusion and Schools Service Manager – Transporting Somerset | | |
| Timescale | 1 st September 2023 | | |

| | | | | |
|---|--|----------|---|-------|
| Finding 1.3: Management information | Action | | | |
| <p>Transport management do not have access to a Capita report that displays all routes, their daily contract cost, the total days of operation and projected cost per financial year. This limits their oversight.</p> <p>Transport provided a report containing most of this information for all contracts active during 2021/22 to date. We analysed it and identified:</p> <ul style="list-style-type: none"> There were 34 active routes that appeared to have more than one recorded contract. Transporting Somerset could not explain this. There were 20 contracts that had no recorded contract end date, and one with no recorded daily cost. Transporting Somerset advised they updated these entries after we identified them. | <p>Transporting Somerset should investigate the duplicated routes and establish the cause. If necessary, a data cleanse should be completed before system data is transferred to MTC.</p> <p>Management should ensure that MTC is capable of producing reports that combine route, financial and contractual information, and allow in-year projections to be sense checked.</p> | | | |
| | Priority | 2 | SWAP Reference | 46729 |
| | Responsible Officer | | Service Manager – Transporting Somerset | |
| | Timescale | | 1 st September 2022 | |

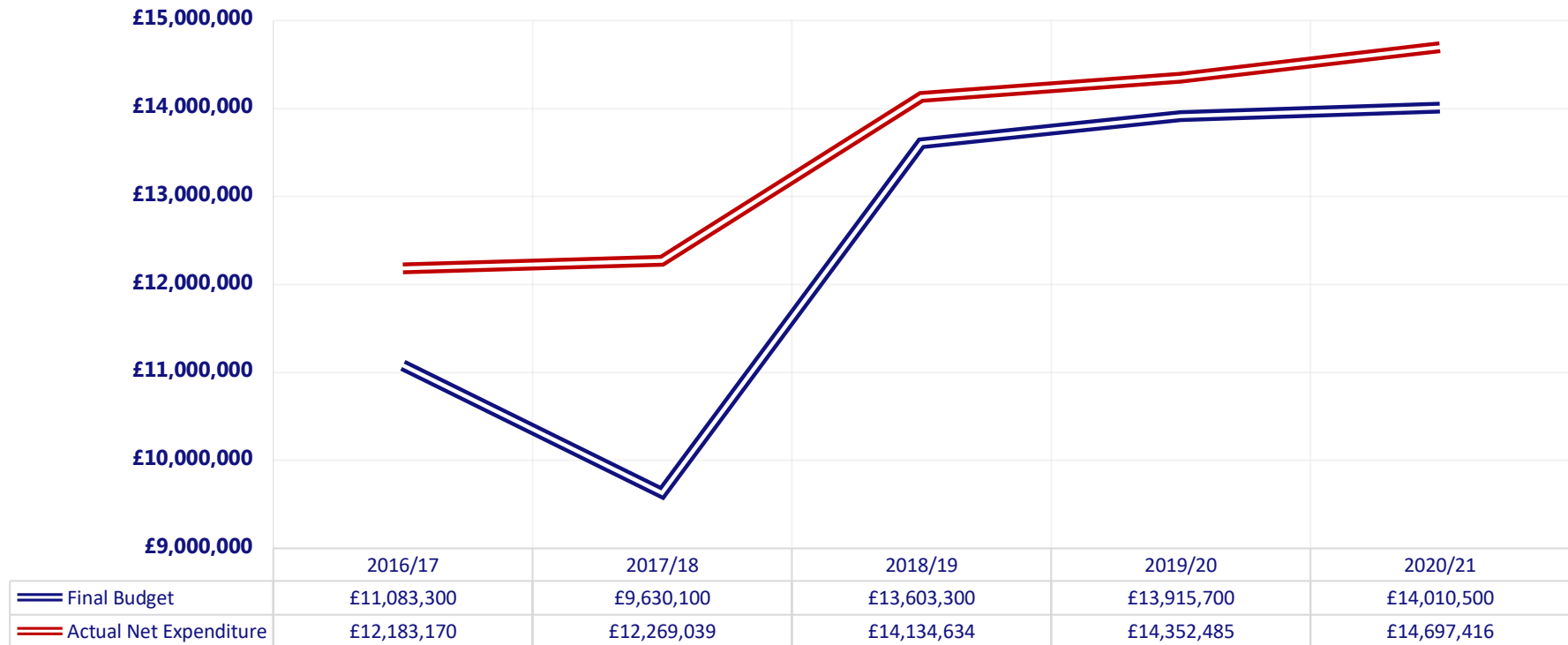
| | | | | |
|--|---|----------|---|-------|
| Finding 1.4: Transport system replacement project | Action | | | |
| <p>Transporting Somerset and the IT service are currently running a System Replacement Project. This will see two systems used by Transport (Capita EMS and Trapeze) be replaced by a combined system, MTC.</p> <p>Finance is a stakeholder, but to date has not been involved in detailed discussions about system functionality.</p> | <p>Transporting Somerset should ensure Finance is involved in the MTC system project so their requirements can be incorporated into system development.</p> | | | |
| | Priority | 2 | SWAP Reference | 46735 |
| | Responsible Officer | | Service Manager – Transporting Somerset | |
| | Timescale | | 1 st September 2023 | |

| | | | | | | | | | | | | | |
|--|---|-----------------------|-------|-----------------------|-------|----------------------------|--|--|--|------------------|--------------------------------|--|--|
| <p>Finding 1.5: Delegations tables</p> <p>We found that 35 transport cost centres in SAP did not have delegation tables. This means system authorisers for these budgets have not been set up. For Inclusion budgets, there are inconsistencies between the budget holders identified by Finance and the officers able to approve via SAP delegation tables.</p> <p>SAP is not used to process most transport expenditure. This is done via an interface. In practice, Business Support staff authorise individual invoices, which are later approved by a retroactive, termly Non-Key Decision. We found that only one officer currently set up to use the Capita EMS interface is also a SAP approver for transport cost centres. This means the staff processing and authorising invoices do not have recorded authority to do so.</p> <p>We also identified several cost centres where Finance officers are able to approve elevated levels of expenditure considering their staff grade.</p> | <p>Action</p> <p>Finance should review all existing transport cost centres to ensure appropriate authorisers have been set up for all cost centres, and authorisation thresholds mirror any stated limits. If deemed appropriate, Finance should obtain a recorded exemption from any rules setting out staff authorisation limits.</p> <table border="1" data-bbox="1131 438 2125 614"> <tr> <td>Priority</td> <td>2</td> <td>SWAP Reference</td> <td>46732</td> </tr> <tr> <td>Responsible Officer</td> <td colspan="3">Service Manager – Management Accounting</td> </tr> <tr> <td>Timescale</td> <td colspan="3">1st September 2022</td> </tr> </table> | Priority | 2 | SWAP Reference | 46732 | Responsible Officer | Service Manager – Management Accounting | | | Timescale | 1 st September 2022 | | |
| Priority | 2 | SWAP Reference | 46732 | | | | | | | | | | |
| Responsible Officer | Service Manager – Management Accounting | | | | | | | | | | | | |
| Timescale | 1 st September 2022 | | | | | | | | | | | | |
| <p>Finding 1.6: Budget setting</p> <p>For the 2022/23 special school transport calculation, the population forecasts provided by Inclusion state that '80-85% of CYP in special schools have school transport.' Finance calculated the budget using 78% but could not explain why.</p> <p>Using the minimum 80% figure, we calculated that the overall pressure on the SEND transport budget is understated by £125k. Considering historic overspends and volatility in this service, it would have been more prudent to utilise the 85% figure for pressure calculations.</p> | <p>Action</p> <p>Finance should ensure that future budget setting calculations fully reflect information and guidance provided by the relevant service. Where this information is not used there should be a documented rationale. Finance should revise the current demand predictions for 2022/23.</p> <table border="1" data-bbox="1131 861 2125 1045"> <tr> <td>Priority</td> <td>2</td> <td>SWAP Reference</td> <td>46852</td> </tr> <tr> <td>Responsible Officer</td> <td colspan="3">Service Manager – Education, Inclusion and Schools</td> </tr> <tr> <td>Timescale</td> <td colspan="3">1st September 2022</td> </tr> </table> | Priority | 2 | SWAP Reference | 46852 | Responsible Officer | Service Manager – Education, Inclusion and Schools | | | Timescale | 1 st September 2022 | | |
| Priority | 2 | SWAP Reference | 46852 | | | | | | | | | | |
| Responsible Officer | Service Manager – Education, Inclusion and Schools | | | | | | | | | | | | |
| Timescale | 1 st September 2022 | | | | | | | | | | | | |
| <p>Finding 1.7: Non-Key Decision reports</p> <p>Cabinet has delegated authority to the ECI Operations Director to approve all procurements made via the Dynamic Purchasing System. Due to the volume of activity, there is a further delegation to allow Transporting Somerset to award and vary contracts up to a value of £499k per contract. Each term, Transport compiles a report of all activity as a Non-Key Decision (NKD).</p> <p>The report includes the daily contract rate for each route, but it does not include an anticipated cost over the lifetime of the contract. This limits management oversight. There is also a potential, albeit unlikely, risk that Transporting Somerset exceed the delegated financial threshold.</p> | <p>Action</p> <p>Transporting Somerset should amend current the current reporting format to include an estimated lifetime cost for all contracts.</p> <table border="1" data-bbox="1131 1292 2125 1445"> <tr> <td>Priority</td> <td>3</td> <td>SWAP Reference</td> <td>46734</td> </tr> <tr> <td>Responsible Officer</td> <td colspan="3">Service Manager – Transporting Somerset</td> </tr> <tr> <td>Timescale</td> <td colspan="3">1st September 2022</td> </tr> </table> | Priority | 3 | SWAP Reference | 46734 | Responsible Officer | Service Manager – Transporting Somerset | | | Timescale | 1 st September 2022 | | |
| Priority | 3 | SWAP Reference | 46734 | | | | | | | | | | |
| Responsible Officer | Service Manager – Transporting Somerset | | | | | | | | | | | | |
| Timescale | 1 st September 2022 | | | | | | | | | | | | |

| | | | | | | | | | | | | | |
|---|--|-----------------------|----------|-----------------------|-------|----------------------------|--|--|--|------------------|--------------------------------|--|--|
| <p>Finding 1.8: Business Support invoicing processing procedures</p> <p>Though there are some informal documents setting out how Business Support process invoices, they do not constitute a complete, formal procedure. The current document is not in a clear format, some of the instructions could be clarified further, and there is no evidence of review or version control. Officers from Transporting Somerset and Business Support confirmed they have not updated procedures since the service adopted Capita EMS version 4 in February 2019.</p> <p>The current procedure does not set out the process used to pay for routes operated by Somerset Accessible Transport (internal fleet), which differs from the standard process.</p> | <p>Action</p> <p>Transporting Somerset and Business Support should produce a formal payment processing procedure or process map.</p> <table border="1" data-bbox="1131 391 2125 542"> <tr> <td>Priority</td> <td>3</td> <td>SWAP Reference</td> <td>46730</td> </tr> <tr> <td>Responsible Officer</td> <td colspan="3">Service Manager – Transporting Somerset</td> </tr> <tr> <td>Timescale</td> <td colspan="3">1st September 2022</td> </tr> </table> | Priority | 3 | SWAP Reference | 46730 | Responsible Officer | Service Manager – Transporting Somerset | | | Timescale | 1 st September 2022 | | |
| Priority | 3 | SWAP Reference | 46730 | | | | | | | | | | |
| Responsible Officer | Service Manager – Transporting Somerset | | | | | | | | | | | | |
| Timescale | 1 st September 2022 | | | | | | | | | | | | |
| <p>Finding 1.9: Capita EMS reconciliation</p> <p>While Finance conducts regular reconciliations between Capita EMS and SAP transactions, Finance do not have access to the Capita EMS interface. This means they cannot confirm that all transactions processed through the interface have been correctly posted to SAP.</p> | <p>Action</p> <p>Finance should work with ICT to establish a method for reconciling Capita and SAP transactions.</p> <table border="1" data-bbox="1131 790 2125 957"> <tr> <td>Priority</td> <td>3</td> <td>SWAP Reference</td> <td>46795</td> </tr> <tr> <td>Responsible Officer</td> <td colspan="3">Service Manager – Education, Inclusion and Schools</td> </tr> <tr> <td>Timescale</td> <td colspan="3">1st September 2022</td> </tr> </table> | Priority | 3 | SWAP Reference | 46795 | Responsible Officer | Service Manager – Education, Inclusion and Schools | | | Timescale | 1 st September 2022 | | |
| Priority | 3 | SWAP Reference | 46795 | | | | | | | | | | |
| Responsible Officer | Service Manager – Education, Inclusion and Schools | | | | | | | | | | | | |
| Timescale | 1 st September 2022 | | | | | | | | | | | | |
| <p>Finding 1.10: Charging spreadsheets</p> <p>Transporting Somerset use charging spreadsheets prepared by Finance when preparing bids for work. A new Finance Manager has recently taken over responsibility for supporting Transporting Somerset. The Finance Manager was not made aware they are responsible for maintaining and updating the charging spreadsheets.</p> <p>The charging spreadsheets have not been updated for the current year. There is a risk Transporting Somerset are using rates that will not recover operating costs.</p> | <p>Action</p> <p>The Service Manager – Management Accounting will review the spreadsheets and establish that they are up to date and fit for purpose. The Service Manager will ensure the charging spreadsheets are updated annually.</p> <table border="1" data-bbox="1131 1204 2125 1382"> <tr> <td>Priority</td> <td>3</td> <td>SWAP Reference</td> <td>46736</td> </tr> <tr> <td>Responsible Officer</td> <td colspan="3">Service Manager – Management Accounting</td> </tr> <tr> <td>Timescale</td> <td colspan="3">1st September 2022</td> </tr> </table> | Priority | 3 | SWAP Reference | 46736 | Responsible Officer | Service Manager – Management Accounting | | | Timescale | 1 st September 2022 | | |
| Priority | 3 | SWAP Reference | 46736 | | | | | | | | | | |
| Responsible Officer | Service Manager – Management Accounting | | | | | | | | | | | | |
| Timescale | 1 st September 2022 | | | | | | | | | | | | |

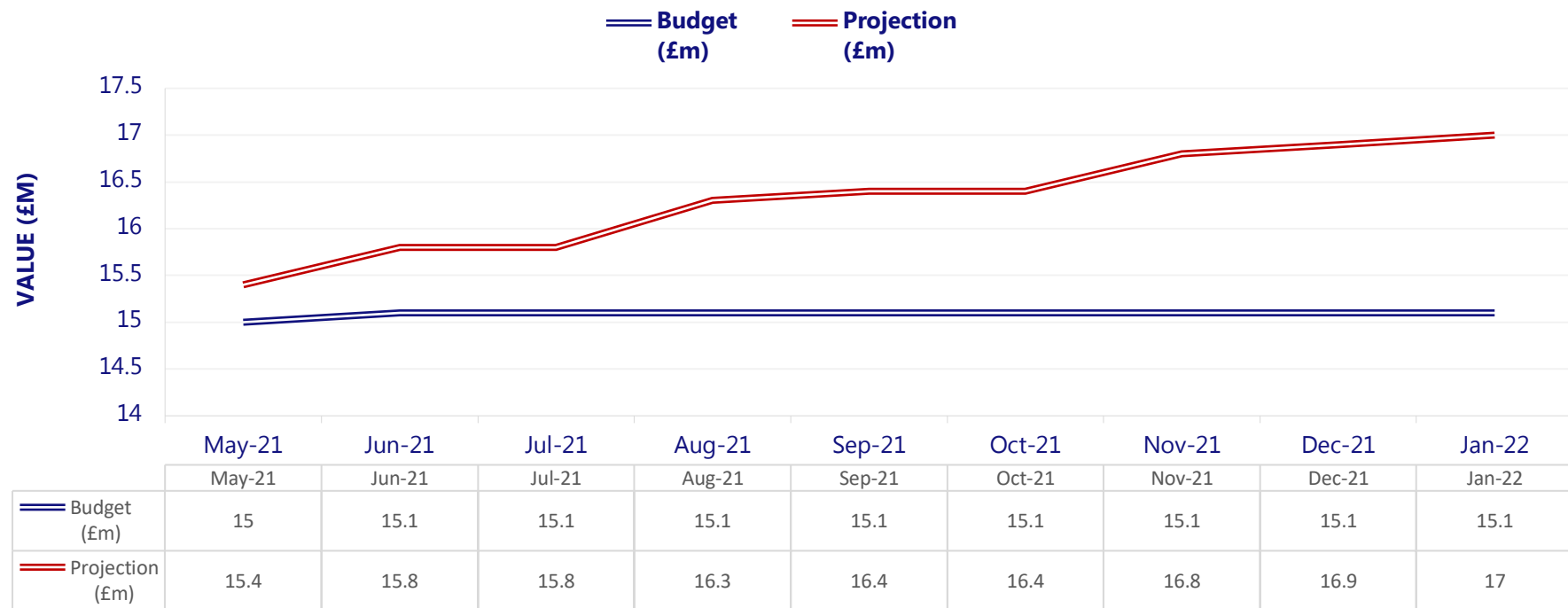
EDCC INCLUSION TRANSPORT ANNUAL BUDGET AND NET EXPENDITURE 2016/17 TO 2020/21

Final Budget Actual Net Expenditure



Appendix 4 2021/22 net expenditure projection

EDCC INCLUSION TRANSPORT BUDGET AND FORECAST NET EXPENDITURE 2021/22



BUDGET REPORTING PERIOD

Strategic Risk Management Update

Lead Officer: Jason Vaughan, Director of Finance & Governance

Author: Pam Pursley, Corporate Risk Manager

Contact Details: 01823 359062 email: pam.pursley@somerset.gov.uk

Lead Member: TBC

Division and Local Member:

1. Summary / link to the County Plan

- 1.1. The management of risk has a direct link to the Council's Business Plan, the Medium-Term Financial Plan, forms an integral part of the Annual Governance Statement (AGS) and is a major component of the External Auditor's Value for Money Audit. Risk management is an essential component of good corporate governance.
- 1.2. The Account and Audit Regulations 2015 require the Council to have in place effective arrangements for the management of risk. These arrangements are reviewed annually and reported as part of the Annual Governance Statement (AGS).

2. Issues for consideration / recommendations

- 2.1. The current strategic risks to Somerset County Council are reported in **Appendix A**
- 2.2. Changes since the last strategic risk report in July 2022 summarised in section 3.2
- 2.3. Recording of the recent Risk Management Awareness Training for members.

3. Background

- 3.1. Strategic risk management is a solution that helps organisations understand the full range of risks in a logical and consistent way. Strategic risks are those key risks that if they were to occur would influence the Council's ability to successfully deliver its outcomes & objectives.
- 3.2. The Council uses JCAD Core to record the strategic and business as usual (BAU) risks. As JCAD Core is an internet-based system, it is available 24/7 365 days a year. The strategic risk report is current at the time of being produced, so there will be instances where the downloaded report will not reflect the live information available from JCAD.

The table below is the summary of the changes to the current risk score

since the last report to Audit Committee in July 2022. These changes were reported to SLT on 1st November

| Strategic Risk Summary | Current Score L x I | Changes since July 2022 | Number of live actions |
|---|---|---|-------------------------------|
| ORG0057: Sustainable MTFP | 5x5(25) ■ | None | 1 |
| SCC Outcome 5: Meeting the challenges for the people of Somerset through innovation, courage & improvement | | | |
| ORG0053: Organisational Resilience | 4x5(20) ■ | None | 10 |
| SCC Outcome 5: Meeting the challenges for the people of Somerset through innovation, courage & improvement. | | | |
| ORG0060: ASC fail to meet statutory obligations | 4x4(16) ■ ↓ | Likelihood (L) reduced from V. Likely to Likely | 4 |
| SCC Outcome 4: Improved health & wellbeing & more people living healthy & independent lives for longer. | | | |
| ORG0056: Potential for supplier disruption | 4x4(16) ■ | None | 2 |
| SCC Outcome 1: A County infrastructure that drives recovery | | | |
| ORG0061: Future impacts of Climate Change | 4x4(16) ■ | None | 9 |
| SCC Outcome 5: Meeting the challenges for the people of Somerset through innovation, courage & improvement. | | | |
| ORG0009: Safeguarding Children | 3x5(15) ■ | None | 1 |
| SCC Outcome 3: Fairer life chances and opportunity for all. | | | |
| ORG0059: LGR in Somerset | 2x5(10) ■ ↑ | Increase in Impact (I) from Major to Critical | 1 |
| SCC Outcome 5: Meeting the challenges for the people of Somerset through innovation, courage & improvement. | | | |

3.3. On the 27th of October as part of the Members induction training, a risk management awareness session was held, the session was attended

by 12 Councillors. The session was recorded and is available from the following link [Risk Management Members Training 27 October 2022](#).

- 3.4. Risk Management training is available to individual or groups upon request, contact pam.pursley@somerset.gov.uk to arrange a date & time.

4. Consultations undertaken

- 4.1. SLT received a strategic risk update at their meeting on 1st November 2022

5. Implications

- 5.1. How successful we are in dealing with the risks we face can also have a major impact on the achievement of our business outcomes and the delivery of services.

There are no financial implications arising from this report, but if the risk management process is not consistent in the run up to and after vesting day, the new authority will be open to additional risks with potential for additional costs.

5.2. Implications for new unitary council

If the risk management process is not consistent in the run up to and after vesting day, the new authority will be open to additional risks with potential for additional costs.

6. Background papers

- 6.1. Strategic Risk report compiled from JCAD Core

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Strategic Risk Review & Control Measure Update Appendix A



Strategic Risks - SCC(SLT)

Page 449

| Details | Details 2 | Details 3 | Current Risk Assessment | Controlled Risk Assessment | | | | | | | | | |
|--|---|--|--------------------------------|----------------------------|---|------------------|------------------|--------------|------------|------------|------------|---|---------------|
| ORG0009 Strategic Risk 2020 - CSC: Safeguarding Children: We fail to deliver our statutory service delivery duties and legal obligations in relation to vulnerable children. | Systemic leadership, financial constraints and management challenges | Possible abuse, injury or loss of life to a vulnerable child through lack of provision of service. Reduced public confidence; emergency measures; increased inspection; personal litigation claims; negative publicity for both the Council and partners; possible financial penalty or service is removed from Council control. | Amber - High Risk | Amber - High Risk | <table border="1"> <thead> <tr> <th>Next Review Date</th> <th>Last Review Date</th> <th>Days Overdue</th> <th>Risk Owner</th> </tr> </thead> <tbody> <tr> <td>05/01/2023</td> <td>05/10/2022</td> <td>0</td> <td>Claire Winter</td> </tr> </tbody> </table> | Next Review Date | Last Review Date | Days Overdue | Risk Owner | 05/01/2023 | 05/10/2022 | 0 | Claire Winter |
| | | | Next Review Date | Last Review Date | | Days Overdue | Risk Owner | | | | | | |
| 05/01/2023 | 05/10/2022 | 0 | Claire Winter | | | | | | | | | | |
| 15 | 15 | Impact 5 Likelihood 3 | Impact 5 Likelihood 3 | | | | | | | | | | |

Risk Review Update

Review Summary: Somerset's Children and Young People's Services have been rated as "Good" across the board in a review of the service. Ofsted inspectors visited Somerset County Council in July 2022 and looked in detail at the work of the Council with those in care, care leavers and children and families with a social worker.

Judgements were made on the impact of leaders on social work practice, the experiences and progress of children who need help and protection, and overall effectiveness.

Ofsted found: "The Council is committed to driving up standards for Somerset's children and is rightly proud of the significant progress it has made since the last inspection in 2017."

Ofsted were particularly impressed with the Council's commitment to listening to children and families to improve services, reporting: "Leaders ensure that children are extensively engaged to help shape the future of children's services. They also consult widely and receive regular feedback, not only from children, but also from families and partner agencies. They use this to understand effectively the impact of services and to inform future service development."

The report also recognised that parents and children in Somerset are supported to make positive changes, children's needs are quickly identified, well understood and the voice of the child is listened to. Many children experience improvements and positive changes in their lives because of the support they receive. Updated on 22/03/2022 15:28:58

| Control Measure | Control Review Update | Status | Cost to Date Est. Cost | Days Overdue | Review Date | Control Owner |
|---|---|---------------------------|---------------------------|--------------|-------------|----------------|
| ORG0009/057 Quality, Review and Performance (QPRM) Meetings, led by the DCS, Deputy DCS and Assistant Directors | Review Summary: Somerset's Children and Young People's Services have been rated as "Good" | In Progress (Reactive) | | 0 | 05/04/2023 | Adrienne Parry |

Strategic Risks - SCC(SLT)

Page 450

| Details | Details 2 | Details 3 | Current Risk Assessment | Controlled Risk Assessment | | | | | | | | | |
|---|--|---|--|---|---|------------------|------------------|--------------|------------|------------|------------|----|--------------|
| ORG0053 Strategic Risk 2020 - Resilience: Organisational Resilience: Without the minimum level of capacity and resource, the resilience of the organisation is compromised. | 1. Emergency response to Covid-19 - redeployment of staff, staff absence 2. Competing priorities including LGR demands, high service pressures etc 3. Emerging financial pressure in 2023-24 4. Assets & Infrastructure e.g. SAP, B Block refurbishment & LGR challenges 5. Recruitment difficulties due to tight labour market 6. ORG0011 - Health & Safety: Death or injury to a member(s) of the public or a member(s) of staff, volunteers, visiting contractors or service users | Additional pressure on service delivery | Red - V. High Risk 20 Impact 5 Likelihood 4 | V. Low Risk 10 Impact 5 Likelihood 2 | <table border="1"> <thead> <tr> <th>Next Review Date</th> <th>Last Review Date</th> <th>Days Overdue</th> <th>Risk Owner</th> </tr> </thead> <tbody> <tr> <td>30/09/2022</td> <td>18/07/2022</td> <td>47</td> <td>Chris Squire</td> </tr> </tbody> </table> | Next Review Date | Last Review Date | Days Overdue | Risk Owner | 30/09/2022 | 18/07/2022 | 47 | Chris Squire |
| Next Review Date | Last Review Date | Days Overdue | Risk Owner | | | | | | | | | | |
| 30/09/2022 | 18/07/2022 | 47 | Chris Squire | | | | | | | | | | |

Risk Review Update

Review Summary: There are continued pressures on staffing. The causes of this risk have been updated to include the emerging financial pressure in 2023-24 and current recruitment difficulties due to a very tight labour market. The latter is exacerbated by local government pay not keeping pace with other sectors. Updated on 31/05/2022 13:28:43

| Control Measure | Control Review Update | Status | Cost to Date Est. Cost | Days Overdue | Review Date | Control Owner |
|---|--|------------------------|---------------------------|--------------|-------------|----------------|
| ORG0053/011 Information Governance Asset register | Review Summary: Progressing alongside the Rec Mgt workstream with a view to a combined retention | In Progress (Reactive) | | 0 | 31/03/2023 | Rebecca Martin |
| ORG0053/009 H&S Create common processes so staff can be interchanged across County | Review Summary: Unchanged from previous update, teams still working through a backlog as a | In Progress (Reactive) | | 0 | 17/01/2023 | Heidi Boyle |
| ORG0053/001 BCP Annual corporate guidance and templates update or after activation of the corporate business continuity plan. | Review Summary: SWAP carried out an audit of B/C management during summer 2021 and | In Progress (Reactive) | | 0 | 14/01/2023 | Nicola Dawson |

Strategic Risks - SCC(SLT)

| Control Measure | Control Review Update | Status | Cost to Date Est. Cost | Days Overdue | Review Date | Control Owner |
|---|--|---------------------------|---------------------------|--------------|-------------|-----------------|
| ORG0053/002 BCP Ensure all service level business continuity plans are updated annually. | Review Summary: SWAP carried out a B/C audit and reported in September 2021. CCU revised an | In Progress (Reactive) | | 0 | 14/01/2023 | Nicola Dawson |
| ORG0053/004 CCU Delivery of an annual training and exercising programme for staff with identified response roles | Review Summary: Partners agreed policy during 2022/23 will be to focus on core response roles: | In Progress (Reactive) | | 0 | 14/01/2023 | Nicola Dawson |
| ORG0053/006 CCU Maintenance of the Somerset Local Authorities Civil Contingencies Partnership | Review Summary: Resilience Board meetings were held in February, July and October 2021. Agreed | In Progress (Reactive) | | 5 | 11/11/2022 | Nicola Dawson |
| ORG0053/007 CCU Maintenance of community resilience capabilities through the Somerset Prepared Partnership | Review Summary: CCU maintains the Somerset Prepared website and quarterly newsletters with | In Progress (Reactive) | | 5 | 11/11/2022 | Nicola Dawson |
| ORG0053/008 CCU Participation and coordination with local multi-agency structures | Review Summary: CCU continues to engage with multi-agency planning with the Avon and Somerset | In Progress (Reactive) | | 5 | 11/11/2022 | Nicola Dawson |
| ORG0053/005 CCU Maintenance of generic joint response frameworks for the Somerset Local Authorities | Review Summary: Joint Corporate Response and Recovery Plan was reviewed and reissued to all | In Progress (Reactive) | | 6 | 10/11/2022 | Nicola Dawson |
| ORG0053/010 ICT Increase awareness & understanding SCC around suspicious or unsolicited email with attachments & website file downloads | Software purchased and running. Tested with SLT and members with a Phish campaign. All user | In Progress (Reactive) | | 261 | 28/02/2022 | Dave Littlewood |

Page 451

Strategic Risks - SCC(SLT)

Page 152

| Details | Details 2 | Details 3 | Current Risk Assessment | Controlled Risk Assessment | Next Review Date | Last Review Date | Days Overdue | Risk Owner |
|---|---|--|---|---|------------------|------------------|--------------|--------------|
| ORG0056 Strategic Risk 2021 - Supply Chain: Potential for significant supplier disruption across all services but greatest risk to demand and sustainability of funding in the care provision sector, transport services and Waste. | External influences and uncertainties, e.g. Covid19 pandemic and it's effect on suppliers concurrently with the effects of leaving the EU and the formation of an Integrated Care System & Local Government Reorganisation, | increased costs, reduced staffing, effects on local / national suppliers may impact on our commissioning activity and result in SCC not achieving the outcomes it seeks. | Red - V. High Risk 16 Impact 4 Likelihood 4 | Yellow - Medium Risk 12 Impact 4 Likelihood 3 | 26/11/2022 | 26/10/2022 | 0 | Paula Hewitt |

Risk Review Update

Review Summary: Situation unchanged but request made to Pam Pursley and Sam Mills to update mitigations Updated on 29/09/2022 10:45:20

| Control Measure | Control Review Update | Status | Cost to Date Est. Cost | Days Overdue | Review Date | Control Owner |
|-----------------|-----------------------|--------|---------------------------|--------------|-------------|---------------|
| | | | | | | |

Strategic Risks - SCC(SLT)

Page 453

| Details | Details 2 | Details 3 | Current Risk Assessment | Controlled Risk Assessment | Next Review Date | Last Review Date | Days Overdue | Risk Owner |
|--|--|---|---|---|------------------|------------------|--------------|---------------|
| ORG0057 Strategic Risk 2020 - MTFP: Sustainable MTFP: The forecast costs of services in the form of the 2023/24 Somerset Council budget must match the financial resources available. There is a risk that the current high inflationary pressures | The very high inflationary environment adversely impacting upon service costs, HRA and the capital programme whilst income to the council doesn't increase causing a budget gap for 2023/24 and future years. The general level of inflation has increased to its high level for 40 years whilst the main sources is expected to be in double digits whilst individual levels for items such as fuel, energy, care provider & external placement costs are considerably higher. The council's income levels are not expected in line with based upon the governments Comprehensive Spending Review (CSR) figures. The CSR figure were "flat cash" with the only increase being from council tax which is subject to referendum limits. | The July 2022 MTFP report to the Executive forecast a budget gap of £44.5m for 2023/24 (up from £28.5m in February 2022) and this position will be further updated in the report to the Executive on 16 November. This position will require significant reductions in spending and increased income generation in order to balance the budget. There are Reserves available to help 'smooth' the position, but these can only be used once and do not address the underlying position. | Red - V. High Risk 25 Impact 5 Likelihood 5 | Yellow - Medium Risk 12 Impact 3 Likelihood 4 | 30/11/2022 | 16/10/2022 | 0 | Jason Vaughan |

Risk Review Update

Review Summary: The work on the 2023/24 Budget is progress and the forecast of the funding shortfall will be reported to the Executive on 16 November 2022. The picture has been complicated by the mini-budget and the uncertainties that this brought to public finances. There is no clarity at present if there will be revision to the previously announced Comprehensive Spending Review (CSR) Updated on 05/07/2022 08:03:16

| Control Measure | Control Review Update | Status | Cost to Date Est. Cost | Days Overdue | Review Date | Control Owner |
|--|---|------------------------|------------------------|--------------|-------------|---------------|
| ORG0057/004 Financial Action Plan to address potential overspending in 2022/23 | Review Summary: Financial Action Plan approved by the Executive as part of the Month 3 report in August | In Progress (Reactive) | | 0 | 18/11/2022 | Jason Vaughan |

Strategic Risks - SCC(SLT)

Page 154

| Details | Details 2 | Details 3 | Current Risk Assessment | Controlled Risk Assessment | Next Review Date | Last Review Date | Days Overdue | Risk Owner |
|--|---|--|---|--|------------------|------------------|--------------|------------|
| ORG0059 Strategic Risk 2021 - LGR: Local Government Reorganisation in Somerset does not deliver the single unitary authority as defined, for Vesting Day on 1st April 2023 | Insufficient staff capacity and capability, MTFP and in-year financial challenges, Ongoing impacts of Covid-19, Working relationships with partners and stakeholders break down | Significant governance and processes required for a functioning organisation are not in place leading to financial and reputational damage as well as adversely effecting service delivery | V. Low Risk 10 Impact 5 Likelihood 2 | V. Low Risk 4 Impact 4 Likelihood 1 | 29/11/2022 | 29/09/2022 | 0 | Alyn Jones |

Risk Review Update

Review Summary: · Programme level review of governance has been concluded, this was informed by the Quality Assurance session with PwC. Minor changes will be instigated with the intention is to increase capacity, reaffirm Programme discipline and improve the focus on programme delivery.

- Slippage of milestones at the end of August. These have been shared with Programme Board along with the impacts, mitigating actions and anticipated timescales for delivery. The majority are being managed through the Workstreams – overall product delivery of the programme or critical Tranche 1 products is not anticipated to be impacted.
- Temporary reduction in staffing levels owing to Covid-19 infections has had a negligible impact on progress owing to the numbers of people on the programme, business continuity arrangements, programme planning, and generally limited seriousness of illness. LGR Programme Team contingency planning underway with regards to increasing figures for COVID-19 and prioritisation of activity in response to capacity pressures.
- Monthly All Member Briefings now diarised and regular liaison with town, parish, and city councils. Strong programme communications strategy – staff and external – in place. Next conference with Town & Parish Councils scheduled to take place on the 4th of October.

Scorecard reporting continues to work well alongside Quality Assurance sessions with workstreams and with SharePoint architecture for risk and issues management. Exploring how the programme can incorporate Change Management through Check in / Quality Control process and having a change readiness indicator reported for workstreams. Updated on 20/07/2022 16:02:23

| Control Measure | Control Review Update | Status | Cost to Date Est. Cost | Days Overdue | Review Date | Control Owner |
|--|--|---------------------------|---------------------------|--------------|-------------|---------------|
| ORG0059/001 Robust programme management with strong partnership engagement | Review Summary: · Resources remain an area of concern within the programme but discussions | In Progress (Reactive) | | 0 | 29/11/2022 | Stephen Marsh |

Strategic Risks - SCC(SLT)

Page 455

| Details | Details 2 | Details 3 | Current Risk Assessment | Controlled Risk Assessment | | | | |
|--|---|---|---|---|---------------------------------------|---------------------------------------|--------------------------|--------------------------------|
| ORG0060 Strategic Risk 2022 - ASC: ASC fails to meet statutory obligations under the care act in relation to Care Provider market sufficiency and capacity | Insufficient / vulnerable independent adult social care market supply/capacity to meet rising demand for care and support on the back of the Covid pandemic | <ul style="list-style-type: none"> Needs and outcomes for individuals are not met in a timely, effective way; Hospital flow significantly affected due to insufficient intermediate care capacity High levels of unmet care need and package of care handbacks; rising levels of care provider business failure or closure; Risk to, and needs of, individuals awaiting care in the community increase; Failure to adequately safeguard adults at risk Increase in out of area/ respite / permanent residential/nursing placements (increased costs; poorer | Red - V. High Risk 16 Impact 4 Likelihood 4 | Yellow - Medium Risk 12 Impact 4 Likelihood 3 | Next Review Date 28/11/2022 | Last Review Date 28/10/2022 | Days Overdue 0 | Risk Owner Niki Shaw |

Risk Review Update

Review Summary: Demand for home-based and residential care continues to outweigh supply (both locally and nationally), further hindered by market stability/sustainability concerns and well known workforce recruitment and retention challenges in the independent care sector. Accompanying system pressures within primary care and hospitals have further demonstrated the fragility of the care provider market which is being compounded by cost of living/inflationary issues. The ASC service has responded to rising numbers of home closures, quality concerns and care package handbacks. On 11 August Paul Coles delivered a presentation to the ICB which agreed to fund £5.5m to support demand/capacity issues across the Somerset system, aligned to a plan on how services can be secured to stabilise market capacity. This funding is supporting a number of initiatives including additional bedded capacity, social care pod developments, the opening of Hendford Care Home larer in Nov 2022 and recruitment campaign activity. Updated on 14/09/2022 08:55:30

| Control Measure | Control Review Update | Status | Cost to Date Est. Cost | Days Overdue | Review Date | Control Owner |
|---|--|---------------------------|---------------------------|--------------|-------------|---------------|
| ORG0060/003 Continue to invest in Proud to Care Somerset as a means of promoting job opportunities across the care sector | Review Summary: Proud to Care is an initiative designed to raise the profile, values and | In Progress (Reactive) | | 0 | 28/11/2022 | Niki Shaw |

Strategic Risks - SCC(SLT)

| Control Measure | Control Review Update | Status | Cost to Date Est. Cost | Days Overdue | Review Date | Control Owner |
|--|--|---------------------------|---------------------------|--------------|-------------|---------------|
| ORG0060/006 Undertake assurance activity in relation to Commissioning duties under The Care Act 2014 ahead of inspection | Review Summary: The focus of ASC PIMS Meeting (July 2022) centred on CQC Theme 2 Providing | In Progress (Reactive) | | 0 | 28/11/2022 | Niki Shaw |

Strategic Risks - SCC(SLT)

Page 157

| Details | Details 2 | Details 3 | Current Risk Assessment | Controlled Risk Assessment | Next Review Date | Last Review Date | Days Overdue | Risk Owner |
|---|-----------|-----------|--|--|------------------|------------------|--------------|----------------|
| ORG0061 Strategic Risk 2022 - Climate Change: SCC is unable to take sufficient urgent action to mitigate and adapt to the current and future impacts of climate change. | | | Red - V. High Risk 16 Impact 4 Likelihood 4 | Yellow - Medium Risk 9 Impact 3 Likelihood 3 | 04/01/2023 | 04/10/2022 | 0 | Michele Cusack |

Risk Review Update

Review Summary: A review of all activity against outcomes is underway and will be discussed with the Climate Implementation Board at the October meeting. The biggest limiting factor to achieving the ambitious goals to 2030 set out in the strategy will be the availability and prioritisation of funding. Updated on 06/07/2022 09:10:40

| Control Measure | Control Review Update | Status | Cost to Date Est. Cost | Days Overdue | Review Date | Control Owner |
|--|---|------------------------|------------------------|--------------|-------------|-------------------|
| ORG0061/003 Delivery of Climate Emergency Strategy Energy Workstream outcomes | Review Summary: Regular discussions continuing to be held between district and County energy leads. | In Progress (Reactive) | | 0 | 31/03/2023 | Oliver Woodhams |
| ORG0061/004 Delivery of Climate Emergency Strategy outcomes for the Build Environment Workstream | Review Summary: Good progress has been made through waves 1 and 2 in the PSDS program in the | In Progress (Reactive) | | 0 | 31/03/2023 | Oliver Woodhams |
| ORG0061/007 Delivery of Climate Change Strategy outcomes for Farming and Food workstream | Review Summary: We have mapped some of the food and farming actions in the Climate Emergency | In Progress (Reactive) | | 0 | 26/01/2023 | Mark Fortune |
| ORG0061/002 Delivery the Climate Emergency Strategy outcomes for Transport | Review Summary: Bus Service Improvement Plan in place and awarded £8.16m. Funding for bus priority | In Progress (Reactive) | | 0 | 26/01/2023 | Mike O'Dowd-Jones |
| ORG0061/010 Delivery of Climate Emergency Strategy outcomes for the Communications workstream | Review Summary: 20/07/2022: the LGR climate change group is working with the comms | In Progress (Reactive) | | 27 | 20/10/2022 | Peter Elliott |

Strategic Risks - SCC(SLT)

| Control Measure | Control Review Update | Status | Cost to Date Est. Cost | Days Overdue | Review Date | Control Owner |
|--|--|---------------------------|---------------------------|--------------|-------------|----------------|
| ORG0061/006 Delivery of the Climate Emergency Strategy outcomes for the Natural Environment workstream | Review Summary: Work being undertaken to map the strategic actions being undertaken across the | In Progress (Reactive) | | 28 | 19/10/2022 | Jonathan Doyle |
| ORG0061/008 Delivery of the Climate Emergency Strategy outcomes for the Water workstream | Review Summary: Recruitment underway to ensure the FWM team are able to deliver against the aims | In Progress (Reactive) | | 28 | 19/10/2022 | Jonathan Doyle |
| ORG0061/005 Delivery of Climate Emergency Strategy outcomes for the Business and Supply Chain Workstream | Review Summary: Green business support survey undertaken and business case outlined for additional | In Progress (Reactive) | | 39 | 08/10/2022 | Paul Hickson |
| ORG0061/009 Delivery of the Climate Emergency Strategy outcomes for the Waste and Resources workstream | | In Progress (Reactive) | | 131 | 08/07/2022 | Mickey Green |

SCC Audit Committee

24th November 2022

Angela Farmer

Ask of Audit Committee :

- To note the risks of the LGR programme register

Key points for discussion:

- Updates since the last report to the Committee in September
- The risks on the register

Risk Update

Changes to the register since the last report

Page 460

| Ref | Risk description | New/closed/change | Comments |
|-----|---|-------------------|---|
| 24 | There is a risk that legacy councils may make spend commitments that adversely affect implementation and benefits delivery | Closed | Risk was closed as mitigated by S24 direction |
| 367 | The risk of the 5 councils overspending on the 22/23 budget and having to use reserves | New | Replacement for risk 24, awaiting further details |
| 358 | The risk that the process of appointments to T2/T3/T4 roles could result in an employment claim if process is not followed properly | New | |

Risk Matrix – update – move to 5x5 matrix

Following requests from both SCC Audit Committee and LGR Implementation Board, the risk matrix has been review to a straightforward 5x5 matrix, as set out in the next slide

The revised risk register, with revised scores can be seen at the end of the presentation

Risk Matrix – 1ST October 2022

| | | | | | |
|--|----------------------------|----------------------------|-----------------------------|--------------------------------|---------------------------------|
| 5 Certain >75% chance | 5 | 10 | 15 | 20 | 25 |
| 4 Probable 51 to 75% chance | 4 | 8 | 12 | 16 | 20 |
| 3 Possible 26 - 50% chance | 3 | 6 | 9 | 12 | 15 |
| 2 Unlikely 6 - 25% chance | 2 | 4 | 6 | 8 | 10 |
| 1 Remote 0-5% chance | 1 | 2 | 3 | 4 | 5 |
| | Minimal 1 | Limited 2 | Moderate 3 | Significant 4 | Catastrophic 5 |
| IMPACT (B) | | | | | |

LGR Risks - October 2022

Programme Level Risks:

Overview of total number of risks:

| Workstream | Total N |
|------------|---------|
| Finance | 3 |
| People | 6 |
| SAI | 3 |
| CCP | 2 |
| PSG/PMO | 5 |

Residual likelihood Score of Programme level Risks

| Remote | Unlikley | Possible | Probable | Certain |
|--------|----------|----------|----------|---------|
| 0 | 6 | 10 | 2 | 1 |

| Likelihood score | PL risk |
|------------------|---|
| Probable | <ol style="list-style-type: none"> Loss of staff Unforeseen emergency |
| Certain | <ol style="list-style-type: none"> Budget gap |

Workstream Risks (Sept scorecard)

Overview of total number of risks:

| Workstream | Total number of risks | |
|---------------|-----------------------|------------|
| | August | September |
| People | 26 | 33 |
| CCP | 13 | 20 |
| SAI | 67 | 70 |
| Finance | 23 | 23 |
| Assets | 36 | 36 |
| Governance | 24 | 25 |
| Total: | 189 | 207 |

Direction of Travel

The same committees also requested that a direction of travel indicator was added to the register so that Members could see movement of the risks on the register – the updated register is set out below

| Descriptor | Meaning | Measurement |
|-------------|-----------------|---|
| Red Arrow | Risk increasing | Changes made to score or residual score increased |
| Amber Arrow | No change | No actions being delivered or residual score remains the same |
| Green Arrow | Risk reducing | Actions being delivered or residual score reduced |

| Ref | Risk description | Impact on the programme (effect) | Inherent score | Controls/Actions | Residual score | Direction of Travel indicator |
|-----|---|---|----------------|---|----------------|-------------------------------|
| 10 | There is a risk of a significant budget gap for new Somerset Council in 2023/24 when districts and County budgets combine, significantly impacting the financial stability of the new Council | <ul style="list-style-type: none"> Inability to set a balanced budget Reductions in service budget and levels | 20 | <ul style="list-style-type: none"> Finance and asset protocol across 5 councils S24 Notice from DHLUC effective May 2022 Budget monitoring processes in the 5 councils Establishment control processes (People) Development of 22/23 baseline budget for new Council, to provide basis for the development of MTFP for new Somerset Council and 23/24 budget (| 20 | |
| 15 | Failure of workstreams/projects to achieve their expected financial benefits as described in business case | <ul style="list-style-type: none"> Lack of achievements of promised overall programme benefits Programme does not meet stakeholder expectations Inability to set a balanced budget | 16 | <ul style="list-style-type: none"> Robust benefits realisation plan in place Early modelling / forecasting of cash-benefits Monitoring through programme reporting framework including escalation and intervention Dedicated LGR Programme Manager in post Tranche 1 products agreed Work on Tranche 2 products started | 12 | |
| 26 | The risk that the back-office ERP (Enterprise Resource Planning) system not sufficiently implemented to support the new authority | <ul style="list-style-type: none"> Inability to pay invoices, raise invoices, and monitor spending during the year | 16 | <ul style="list-style-type: none"> Implementation plan that delivers in excess of the minimum viable product Continued close management of implementation partner against published programme Clear governance and oversight Independent governance oversight role by SOCITM Reports to formal steering group | 8 | |

Programme Level Risks - workstream: Service Alignment

Date: October 2022




Page 466




| Ref | Risk description | Impact on the programme (effect) | Inherent score | Controls/Actions | Residual score | Direction of Travel |
|-----|---|---|----------------|--|----------------|---------------------|
| 228 | Lack of a decision around contracts that are reaching the end of their life between now and April 2024 | <ul style="list-style-type: none"> Reduction in service levels | 20 | <ul style="list-style-type: none"> Engage with finance and procurement sub work streams to ensure that decisions are made that allow sufficient time to put contracts/arrangements in place and to mobilise. | 9 | |
| 13 | Unforeseen emergency or business continuity interruption or rising tide situation that requires staff to be directed from the day job into incident response. | <ul style="list-style-type: none"> Inadequate resources in project delivery Lack of management capacity Reallocation of programme or existing council resources to support response and recovery | 16 | <ul style="list-style-type: none"> 1. Create and maintain a Business Continuity Plan (BCP) for the LGR Programme (signed off by Programme Board) including: <ul style="list-style-type: none"> Engagement with Workstreams to develop the BCP, Engagement with Somerset Local Authorities Civil Contingencies Unit to ensure alignment with wider BCP arrangements across the programme and 5 councils, Internal comms to ensure awareness and buy-in for BCP, Desktop test of BCP. (Resource constraints have delayed completion of this piece of work however more staff have been approved for PMO) | 12 | |
| 22 | The risk that delivery of ICS implementation is not effectively joined-up with LGR implementation | <ul style="list-style-type: none"> Failure to deliver programme to agreed time, cost and quality. Failure to deliver expected benefits. Missed transformation opportunities | 9 | <ul style="list-style-type: none"> Understanding of interdependencies incorporated into LGR work plans and must have Adequate staff resource across both programmes with appropriate capabilities and capacity to address the work | 9 | |



Programme Level Risks - workstream: People




Date: October 2022



Page 467

| Ref | Risk description | Impact on the programme (effect) | Inherent score | Controls/Actions | Residual score | Direction of Travel Indicator |
|-----|---|--|----------------|--|----------------|---|
| 12 | Loss of staff from County and District Councils deemed essential to the programme delivery | <ul style="list-style-type: none"> Delays in the delivery of the Programme implementation plan Additional cost of resourcing e.g. temporary labour Knock-in impacts to BAU service delivery Insufficient level of experience and expertise to deliver the new council operations | 20 | <ul style="list-style-type: none"> Use of interim staff Redeployment Recruitment Protocol Staff engagement to support development of culture (building on existing culture) throughout the lifetime of the programme Mutual Aid process agreed Analysis of staff on fixed term contracts to 31/3/23 Explore mutual aid Appointment of Chief Executive for SCC and new Council agreed by Full Council end of July 2022 Working on T2/T3 appointments | 16 |  |
| 11 | The risk that there are insufficient people resources to implement LGR programme and deliver the approved business case | <ul style="list-style-type: none"> Programme not delivered to quality, time and cost Non-cash and cash benefits not delivered Delays in the delivery of the Business Case objectives or compromised quality Unmanageable workloads on staff | 20 | <ul style="list-style-type: none"> Early definition of resource requirements (capability and capacity) as part of gateway Validation of 1 with PwC as QA partner incorporating lessons learned from previous LGR programmes Resource shortfalls to be raised to five CEOs to address Interim labour arrangements to be defined as a fall back plan. Dedicated LGR Programme Manager (in post from Jan '22) PwC as quality assurance partner in place from Dec '21. 17 February 2022 agreement to fund additional PMO, project specific and subject matter expertise to the programme. Mutual aid process in place Monthly scorecard resource identification | 9 |  |
| 25 | The risk that BAU activity within the Councils is impacted by stretched staff resources balancing LGR and BAU work | <ul style="list-style-type: none"> Reduced capacity to deliver non=LGR activity to required quality Reputational harm to existing and new councils Loss of staff owing to workload/disruption to services Staff wellbeing | 20 | <ul style="list-style-type: none"> Recruitment protocol Staff engagement at local level BAU process at local level to ensure any additional work is scrutinised before agreeing to continue Monitoring key performance indicators for any drop off in service provision/performance Mutual aid process in place Monthly scorecard resource identification | 9 |  |

| Ref | Risk description | Impact on the programme (effect) | Inherent score | Controls/Actions | Residual score | Comments |
|-----|---|---|----------------|---|----------------|---|
| 309 | The risk that there is insufficient capacity to manage the people side of change | <ul style="list-style-type: none"> Where programme outcomes and benefits results are dependent on collective, proficient adoption of new ways of working | 16 | <ul style="list-style-type: none"> Change management approach, quality framework and tools established and in use Supplementary offer to strengthen change capabilities started and will continue to evolve, e.g. targeted interventions and coaching, high risk, high need products in T1 Validation of approach and priorities with PwC and our Unitary partners Working closely with comms and People workstream Plans in place to identify and collaborate with wider change assets across all organisations Mobilisation of tactical change management resource to work alongside and support existing network of change management across all organisations Engagement with programme and WS leads to unite thinking and drive profile of people side of change as core competence of programme Evidence based approach to defining extent and impact of T1 products to define level of need and target resource where needed most Application of data and insight from a cross WS to build programme change plan and EIA support Embedding change management within current assurance practice and reporting Nominated lead for People change | 12 |  |
| 103 | Agreement not reached with Trade Unions on pay scales/terms and condition for new Council staff | <ul style="list-style-type: none"> Employer and Trade Union cannot reach agreement | 6 | <ul style="list-style-type: none"> Consideration of plan B if agreement cannot be reached, including utilising Somerset CC terms and conditions | 4 |  |
| 358 | The risk that the process of appointments to T2/T3/T4 roles could result in an employment claim if process is not followed properly | <ul style="list-style-type: none"> Reputational damage Cost implications for the new council Confidence levels of other colleagues in the appointment process to the new council | 16 | <ul style="list-style-type: none"> Incoming new Chief Executive taking ownership of the risk SSDC Chief Executive taking on sponsor role for People workstream Regular reporting back to PB by People workstream Consultation with PB Consultation with Trade Unions on the procedures External legal advice being taken Member engagement in T2 appointments and | 12 |  |

| Ref | Risk description | Impact on the programme (effect) | Inherent score | Controls/Actions | Residual score | Comments |
|-----|---|---|----------------|---|----------------|---|
| 14 | Loss of opportunity to align public and VCSE services to new operating model and outcomes as defined in the Business Case | <ul style="list-style-type: none"> • Reduced financial and non-financial benefits • Poor relationship between partners and new authority • Transformational opportunity lost, delayed or reduced • Negative impact on cross-cutting outcomes for communities • Reputational damage for new council | 16 | <ul style="list-style-type: none"> • Complete partner and stakeholder mapping exercise (CCP) • Targeted engagement with all strategic partners (CCP) • Effective ongoing communications with all stakeholders about LGR programme and its objectives (Comms) • Effective LCN's • Services thinking about the relationship with the public and VCSE in design and delivery (SA) • Ensure LGR Advisory Board remains inclusive, transparent and accessible (CCP) • Stakeholder management plan(s) for critical products and across workplans (CCP) • External communications on purpose and benefits of the LGR programme (Comms) • Senior officer engagement with VCSE and partners (CCP) • Use of customer panel to hear voice of the public and users (CCP) | 12 |  |
| 19 | Design/products to create new unitary council will not have the community as the central focus in the design of the new operating model | <ul style="list-style-type: none"> • Organisational culture is not community focused • Insufficient partnership working • Poor outcomes for communities • Failure to deliver planned business case benefits | 12 | <ul style="list-style-type: none"> • Programme and workstream checkpoint review criteria • Ensure LGR Advisory Board remains effective, inclusive, transparent and accessible (PSG) • Embed community focus as a critical requirement of operating model development through workshops, research and engagement (CCP) • Ensure TOM development reflects emerging customer strategy and principles (CCP) • Engagement with all workstreams to secure agreement/recognition that communities focus goes beyond safe and legal (CCP) • Ensure interdependencies are identified and managed through iterative discussion and collaboration (CCP) • Specifically, engage with People workstream to support as ethos and culture of communities and customers first (CCP/People) • Involve customers and communities in the design of products and services (CCP) • Learn from customer experience and feedback (CCP) • Develop sound business case to underpin | 8 |  |

| Ref | Risk description | Impact on the programme (effect) | Inherent score | Controls/Actions | Residual score | Comments |
|-----|---|--|----------------|---|----------------|---|
| 27 | Uncontrolled change to the scope of the LGR programme | <ul style="list-style-type: none"> Failure to deliver the new council to agreed time, cost and quality. Failure to deliver agreed financial and non-financial benefits. Missed transformation opportunities for the new authority Impact on capacity of teams to manage and deliver the programme: rework, wasted effort and reduction in shared understanding of programme priorities and required activity | 12 | <ul style="list-style-type: none"> Programme Implementation Manual outlining decision-making tolerances and purpose of change control Current Programme governance arrangements: PMO, Programme Steering Group and Programme Board to identify Change control process in place Strong communication within the programme within the programme promoting adherence to guidance around change control, benefits realisation and risk Quality assurance of workstream reporting Robust scrutiny of programme through LGR Implement Board and LGR Scrutiny | 9 |  |
| 29 | Inter-dependencies between workstreams not managed effectively | <ul style="list-style-type: none"> Inability to deliver cross-cutting products successfully and therefore benefits not realised | 12 | <ul style="list-style-type: none"> Programme tranches developed A process/approach for management of dependencies to ensure impacts of change (time/cost/quality) are easily understood at both workstream and programme level. PMO providing assurance against delivery of programme capabilities Dependency management tool in central list (sharepoint) T1 products dependencies to be assessed are T1 sign off (Date: ongoing) Management of dependencies and interdependencies are part of monthly assurance meetings between PMO and workstream (Date: ongoing) | 6 |  |
| 23 | The risk that non-delivery or late delivery of key LGR products that other workstreams are dependant on | <ul style="list-style-type: none"> Missed opportunities Siloed working Failure to deliver key products Delays in workstreams and ultimately the programme Re-engineering of solutions/rework required | 20 | <ul style="list-style-type: none"> Reliable critical path is available, with regular opportunities to monitor and course-correct when necessary Regular opportunities for project managers to review with workstream and sub-workstream leads Review of scorecards Robust programme and project planning Modelling interdependencies incorporated into work plans and must haves Adequate resourcing of programme staff with appropriate capabilities and capacity to deliver workplan Utilise lessons learned from other programmes Dedicated LGR programme managers in post | 12 |  |

| Ref | Risk description | Impact on the programme (effect) | Inherent score | Controls/Actions | Residual score | Comments |
|-----|--|--|----------------|---|----------------|---|
| 21 | The risk that the LGR programme negatively impacts service provision and improvement activities of Children's services and Adult Social care | <ul style="list-style-type: none"> • Performance of service for vulnerable adults negatively impacted • Poor external perception of quality of services • Potential Government intervention | 12 | <ul style="list-style-type: none"> • Strong communication within the programme • Adherence to project guidelines around Change Control, Benefits realisation and risk. • Horizon scanning • Cross-cutting involvement of senior managers across workstreams in particular Service Alignment and Improvement • Quarterly reporting to Programme Board • PMO engagement and participation with Integrated Care System Governance • Modelling of interdependencies between programmes, reflected in respective plans • Active consideration within the emerging Target Operating Model • Consideration of a review of Governance of CSC and ASC • Ongoing comms with the service • Experience gained from other councils going through LGR taken into consideration in approach | 6 |  |
| 111 | The risk of overspend on the £16.5 m LGR implementation budget | <ul style="list-style-type: none"> • Higher than anticipated LGR programme costs and redundancy payments • Reduction to reserves and longer payback on the Business Case | 16 | <ul style="list-style-type: none"> • The approved commitments are being challenged if the funding has not been fully committed to ensure the bid is still required, if it is not or can be reduced this will make more funds available for the programme. • Work is underway to revisit the redundancy figures | 12 |  |

Questions/Recommendations

1. Questions
2. Recommendations:
 1. To note the risks on the LGR Programme Register

Audit Committee Work Programme 2022 November – March 2023

| | Description | Report by |
|---|--|-------------------------------|
| 24 November 2022 | | |
| Statement of Accounts | To approve both the County Council's and Pension Fund's accounts, final Annual Governance Statement and Value for Money arrangements | Jason Vaughan / Paul Griffin? |
| Strategic Risk Management | The regular update on progress in mitigating the highest scoring risks | Pam Pursley |
| LGR programme risks | To review the LGR programme risks | Angela Farmer |
| External Audit report from Grant Thornton | Audit Findings Report and Auditors Annual Report | |
| Internal Audit update from SWAP | The regular progress report from SWAP on the completion of the current Internal Audit Plan, highlighting any high risks that have arisen from their work | Alastair Woodland |
| Committee Future work Programme | Consideration of the work programme for the Audit Committee | |
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| 19 January 2023 | | |
| Annual Report to Council | To approve the Committee's Annual report to Full Council | Jason Vaughan |
| External Audit | | |
| Internal Audit update from SWAP | Progress report from SWAP on the status of the current Internal Audit Plan, noting any high risks identified | Alastair Woodland |
| Medium Term Financial Plan Reports | Treasury Management Strategy, Capital Strategy and MRP statement | Jason Vaughan |
| Risk Management Strategy | Approve the Risk Management strategy for Somerset Council | ? workstream |
| Strategic Risk Management | Update on the Strategic risks to the County Council | Pam Pursley |
| LGR programme risks | To review the LGR programme risks | Angela Farmer |
| | | |
| Committee Future work Programme | Consideration of the work programme for the Audit Committee | |
| 16 February 2023 | | |
| MTFP | | |
| SCC Strategic Risk | Strategic Risk report | |
| LGR programme risks | Review LGR programme risks | |
| | | |

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|---------------------------------|---|--|
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| Committee Work programme | Items for the future work programme | |
| 23 March 2023 | | |
| Strategic Risk Management | Combined strategic risk report Forward risk reporting plan | |
| LGR programme risks | To review the LGR programme risks | |
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| | | |
| Committee Future work Programme | Consideration of the work programme for the Audit Committee | |
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