Notice of Meeting of

AUDIT COMMITTEE

Thursday, 28 September 2023 at 10.00 am

Luttrell Room - County Hall, Taunton TA1 4DY

To: The members of the Audit Committee

Chair:	Councillor Mike Hewitson
Vice-chair:	Councillor Andy Sully

Councillor Steve Ashton	Councillor Lee Baker	Councillor Simon Carswell
Councillor Mike Caswell	Councillor Norman Cavill	Councillor Mandy Chilcott
Councillor Simon Coles	Councillor Shane Collins	Councillor Habib Farbahi
Councillor Tim Kerley	Jennifer Whitten	

For further information about the meeting, including how to join the meeting virtually, please contact democraticservicesteam@somerset.gov.uk.

All members of the public are welcome to attend our meetings and ask questions or make a statement **by giving advance notice** in writing or by e-mail to the Monitoring Officer at email: democraticservicesteam@somerset.gov.uk by **5pm on Friday, 22 September 2023**.

This meeting will be open to the public and press, subject to the passing of any resolution under the Local Government Act 1972, Schedule 12A: Access to Information.

The meeting will be webcast and an audio recording made.

Issued by (the Proper Officer) on Wednesday, 20 September 2023

AGENDA

Audit Committee - 10.00 am Thursday, 28 September 2023

1 Declarations of Interest (Pages 9 - 10)

To receive and note any declarations of disclosable pecuniary interests, other registrable interests and non-registrable interests in respect of any matters included on the agenda for consideration at this meeting.
(The other registrable interests of Councillors of Somerset Council, arising from membership of City, Town or Parish Councils and other Local Authorities will automatically be recorded in the minutes.)

2 Apologies for Absence

To receive any apologies for absence.

3 Minutes from the Previous Meeting (Pages 11 - 20)

To approve the minutes from the previous meeting.

4 Public Question Time

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

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

We are now live webcasting most of our committee meetings and you are welcome to view and listen to the discussion. The link to each webcast will be available on the meeting webpage, please see details under 'click here to join online meeting'.

5 External Audit Update for South Somerset District Council 2021-22 (Pages 21 - 38)

6 External Update and Audit Conclusion for Sedgemoor District Council 2021-22 (Pages 39 - 222)

7 External Audit Plan for Sedgemoor District Council 2022-23 (Pages 223 - 250)

8 External Update for Somerset Pension Fund 2022-23 (Pages 251 - 286)

9 External Audit Update Report and Mendip District Council Statement of Accounts 2021-22 (Pages 287 - 612)

10 Internal Audit Plan Progress Report for Somerset Council 2023-24 (Pages 613 - 634)

11 Strategic Risk Management Update (Pages 635 - 642)

12 Audit Committee Work Plan to May 2024 (Pages 643 - 644)

13 Any other business

Guidance notes for the meeting

Council Public Meetings

The legislation that governs Council meetings requires that committee meetings are held face-to-face. The requirement is for members of the committee and key supporting officers (report authors and statutory officers) to attend in person, along with some provision for any public speakers. Provision will be made wherever possible for those who do not need to attend in person including the public and press who wish to view the meeting to be able to do so virtually.

Inspection of Papers

Any person wishing to inspect minutes, reports, or the background papers for any item on the agenda should contact Democratic Services at democraticservicesteam@somerset.gov.uk or telephone 01823 357628.

They can also be accessed via the council's website on Committee structure - Modern Council (somerset.gov.uk)

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: Code of Conduct

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.

Public Question Time

If you wish to speak or ask a question about any matter on the Committee's agenda please contact Democratic Services by 5pm providing 3 clear working days before the meeting. (for example, for a meeting being held on a Wednesday, the deadline will be 5pm on the Thursday prior to the meeting) Email democraticservicesteam@somerset.gov.uk or telephone 01823 357628.

Members of public wishing to speak or ask a question will need to attend in person or if unable can submit their question or statement in writing for an officer to read out, or alternatively can attend the meeting online.

A 20-minute time slot for Public Question Time is set aside near the beginning of the meeting, after the minutes of the previous meeting have been agreed. Each speaker will have 3 minutes to address the committee.

You must direct your questions and comments through the Chair. You may not take a direct part in the debate. The Chair will decide when public participation is to finish. If an item on the agenda is contentious, with many people wishing to attend the meeting, a representative should be nominated to present the views of a group.

Meeting Etiquette for participants

Only speak when invited to do so by the Chair.
Mute your microphone when you are not talking.
Switch off video if you are not speaking.
Speak clearly (if you are not using video then please state your name)
If you're referring to a specific page, mention the page number.
There is a facility in Microsoft Teams under the ellipsis button called turn on live captions which provides subtitles on the screen.

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.
If there are members of the public and press listening to the open part of the meeting, then the Democratic Services Officer will, at the appropriate time, ask participants to leave the meeting when any exempt or confidential information is about to be discussed.

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. No filming or recording may take place when the press and public are excluded for that part of the meeting.

____

Microsoft Teams meeting

Join on your computer, mobile app or room device

Click here to join the meeting

Meeting ID: 350 508 206 862

Passcode: oMoo2e

Download Teams | Join on the web

Or call in (audio only)

+44 1823 772277,,846477729#   United Kingdom, Taunton

Phone Conference ID: 846 477 729#

Find a local number | Reset PIN

Learn More | Meeting options

____

This page is intentionally left blank

SOMERSET COUNCIL

COUNCILLORS WHO ARE ALSO CITY, TOWN AND/OR PARISH COUNCILLORS

SOMERSET COUNCILLOR	CITY, TOWN AND/OR PARISH COUNCIL
Steve Ashton	Crewkerne Town Council / Hinton St George Parish Council
Suria Aujla	Bridgwater Town Council
Jason Baker	Chard Town Council
Lee Baker	Cheddon Fitzpaine Parish Council
Marcus Barr	Wellington Town Council
Mike Best	Crewkerne Town Council
Alan Bradford	North Petherton Town Council
Theo Butt Philip	Wells City Council
Simon Carswell	Street Parish Council
Norman Cavill	West Monkton Parish Council
Peter Clayton	Burnham Highbridge Town Council
Nick Cottle	Glastonbury Town Council / St Edmunds Parish Council
Adam Dance	South Petherton Parish Council
Tom Deakin	Taunton Town Council
Andy Dingwall	Westonzoyland Parish Council
Caroline Ellis	Taunton Town Council
Ben Ferguson	Axbridge Town Council
Bob Filmer	Brent Knoll Parish Council
Andrew Govier	Wellington Town Council
Pauline Ham	Axbridge Town Council
Philip Ham	Coleford Parish Council
Ross Henley	Wellington Town Council
Edric Hobbs	Shepton Mallet Town Council
John Hunt	Bishop’s Hull Parish Council
Val Keitch	Ilminster Town Council
Andy Kendall	Yeovil Town Council
Jenny Kenton	Chard Town Council
Tim Kerley	Somerton Town Council
Marcus Kravis	Minehead Town Council
Tony Lock	Yeovil Town Council
Martin Lovell	Shepton Mallet Town Council
Mike Murphy	Burnham Highbridge Town Council
Graham Oakes	Yeovil Town Council / Yeovil Without Parish Council
Sue Osborne	Ilminster Town Council
Kathy Pearce	Bridgwater Town Council
Emily Pearlstone	Ilchester Parish Council

Evie Potts-Jones	Yeovil Town Council
Wes Read	Yeovil Town Council
Leigh Redman	Bridgwater Town Council
Mike Rigby	Bishop’s Lydeard and Cothelstone Parish Council
Tony Robbins	Wells City Council
Dean Ruddle	Somerton Town Council
Peter Seib	Brympton Parish Council / Chilthorne Domer Parish Council
Heather Shearer	Street Parish Council
Gill Slocombe	Bridgwater Town Council
Brian Smedley	Bridgwater Town Council
Federica Smith-Roberts	Taunton Town Council
Jeny Snell	Yeovil Town Council / Brympton Parish Council
Andy Soughton	Yeovil Town Council
Richard Wilkins	Curry Rivel Parish Council
Dave Woan	Yeovil Town Council
Ros Wyke	Westbury-sub-Mendip Parish Council

The memberships of City, Parish or Town Councils will be taken as being declared by these Councillors to be other registerable interests in the business of the Somerset Council meeting and need not be declared verbally.

Monitoring Officer of Somerset Council

Minutes of a Meeting of the Audit Committee held in the Luttrell Room - County Hall, Taunton TA1 4DY, on Thursday, 29 June 2023 at 10.00 am

Present:

Cllr Mike Hewitson (Chair)
Cllr Andy Sully (Vice-Chair)

Cllr Steve Ashton
Cllr Lee Baker
Cllr Simon Carswell
Cllr Norman Cavill
Cllr Mandy Chilcott
Cllr Simon Coles
Cllr Tim Kerley

13 Apologies for Absence - Agenda Item 1

Apologies were received from Cllr Mike Caswell (in virtual attendance), Cllr Shane Collins, Cllr Habib Farbahi, Jennifer Whitten (in virtual attendance).

14 Declarations of Interest - Agenda Item 2

15 Minutes from the Previous Meeting - Agenda Item 3

The minutes of the Audit Committee meeting held on 27 April 2023 were agreed upon, with the following amendments to Agenda item 6, Page 15, and signed by the Chair as an accurate record of the meeting:

- Replace Portfolio Holder for Resource with Lead Member for Resources and Performance
- Amend 'because of their ownership the funding had come from different budgets' to 'because of their ownership and management, the funding had come from different budgets'.

16 Public Question Time - Agenda Item 4

The Chair noted that there had been no public questions submitted by the published submission deadline.

17 Report of Somerset County Council Audit Plan 2022/23 - Agenda Item 5

A Point of Order was raised regarding the inaccuracy of Agenda Item 5 title and the submitted report.

In response, Alastair Woodland, Assistant Director SWAP Internal Audit Services, advised that the correct report had been published, and that the title in the agenda was inaccurate, Somerset West and Taunton should read Somerset County Council.

The Assistant Director SWAP Internal Audit Services, Alastair Woodland, presented the report, highlighting, that the report detailed the outturn for the 2022/23 internal audit plan for Somerset County Council; the significant findings identified since the previous Audit Committee Meeting, 27 April 2023, including the two limited assurance audits of the Climate Emergency: Governance Arrangements and the school's financial value standard at Ashton's Community of England Primary School; the themed based work of the school programme scheduled to be reported at the 24 August 2023 Audit Committee Meeting; the availability of the new audit software system for 2023/24 and the provision of real time access to information in addition to the updates provided at Audit Committee; that the outstanding and agreed management actions are to be reviewed together with any actions outstanding from the previous County Council and four District Councils to produce a new dashboard for August 2023; the overdue audits and the follow up working taking place: School Balances, Transport Budget Governance, Community Learning Partnerships, Athena contract, Children Missing from Education; the work and progress of the Commission and Delivery in Schools Follow up; the four audit reviews that are unfinalised relating to Somerset County Council and the inclusion in 2023/24 Somerset Council report; summary of the outstanding District Council Work and governance and audit of the Housing - Service Charges, and the required action by Homes in Sedgemoor.

The Chair invited comments from other Members present, questions and points raised included; the duplication of content of Item 5 and Item 6 agenda reports, and the clarification of the reports content; detailed reports requested additional to summaries of limited or no assurance audit items to provide context and enable the Audit Committee to consider and have in depth knowledge of risks and issues.

Alastair Woodland, Assistant Director SWAP Internal Audit Services, to circulate to Members of the Audit Committee, and where appropriate publish, full audit reports for limited or no assurance audits, additional to summaries in advance of the Audit Committee meeting, furthermore to circulate the Climate Emergency: Governance Arrangements – Final Report 2023 report, to all Audit Committee Members.

The Chair requested that the Climate Emergency Governance arrangements report to be added to the Audit Committee agenda, 24 August 2023.

The Vice Chair asked for an update on the 10 actions agreed by Management to be implemented by 1 June 24, regarding Climate Emergency: Governance Arrangements; including specifically what the actions are, the timeframe, the staffing structure and the carbon baseline measurement.

In response, the Executive Director, Climate and Place, Mickey Green, provided a summary of the work underway to bring together the former District Councils and County Council strategies to reflect the ecological emergency, financial challenges, the priorities of the administration and the delivery model going forward. The Executive Director, Climate and Place, further advised of the Climate Emergency report to be presented at the Scrunty Committee - Climate and Place 19 July 2023.

Strategic Manager, Climate and Place, Jon Doyle, added to the above points, highlighting that the carbon baseline measurement work had now been completed, with the next steps to work across the wider Council to set carbon budgets; the development of the staffing structure and the inclusion of a bid writer following the transformation to Somerset Council.

The Committee noted the report.

18 Internal Annual Audit Opinion Report 2022-2023 - Agenda Item 6

Cllr Mandy Chilcot raised the point that the Progress Update Report (Agenda Item 5) and the Opinion Report (Agenda Item 6) from SWAP were exceedingly similar. Alastair Woodland, Assistant Director SWAP Internal Audit Services, explained that the reports contained the same information, however, the Opinion Report gave an overview of how well governance risk and control had worked throughout Somerset County Council (SCC) during 2022-23.

Alastair Woodland, Assistant Director SWAP Internal Audit Services, presented his report of Internal Audit Activity highlighting the internal audit plan agreed by the SCC Audit Committee in March 2022. Appendix D provided details on the progress made to date and any new work agreed. He commented that there were recommendations overdue. Mr Woodland confirmed that they would follow up on those recommendations with management to affirm they have been implemented and the risks in those areas had been reduced.

Alastair Woodland further noted that there were 4 reviews not yet finalised. These would be brought forward and included in the 23-24 Audit Plan for Somerset Council.

He noted that there were medium risk rated weaknesses, some isolated high risk weaknesses, but no critical weaknesses. It was further affirmed that 63% of the recommendations that were followed up were implemented and that SWAP were broadly satisfied with the results.

Alastair Woodland then went through the significant Corporate Risks for the 2022-23 year and noted that the reports which had not previously been finalised due to the legacy councils coming to an end, namely the Athena Contract and Climate Emergency: Governance Arrangements. These would be circulated to the Committee Members after the meeting. The Committee would then consider the reports and, if necessary, bring them to the next meeting agenda.

He further went through the significant strategic risks for the 2022-23 year and noted that they were in conformance with the public sector auditing standards.

Alastair Woodland confirmed that the two outstanding recommendations were a work in progress and they would assess what action needed to be taken and what impact that had on the risks in their follow up update appended to their progress report to the committee. The report would indicate whether they thought the risk was significantly reduced to move it out of limited assurance and no longer needed to be monitored. He assured the committee that these were high priority recommendations and would ensure that those would be implemented. However, the recommendations were still in the tracker and a report would be circulated straight after the meeting to the Members.

Following a debate on internal controls, it was decided the Committee would work with Members and Officers to review and refine how the papers are managed and presented to ensure that the appropriate level of information is provided behind the summaries provided. For example, the year-end report would reflect which actions in relation to the risks had been taken and when the next action date was as well, because if any reports had been discussed during the year, they needed to be noted in the year-end report.

Cllr Mandy Chilcot queried the risks, school balances and assurance for adults and it was determined that the Committee would make a recommendation that the school balances be looked at by Children's Scrutiny. The S.151 Officer confirmed that school balances were recognised in the financial strategy report that would to the Executive Committee on the 10th of July and also the Corporate and Resources Scrutiny Committee the week beforehand. This was identified as a key area.

The S.151 Officer further confirmed that, in terms of assurance for adults, there was a change in the reporting structure and this was with the Finance with the Service Director Finance & Procurement and there was an action plan to improve that. He further confirmed that there should be an audit on this soon.

The Service Director Finance & Procurement, Nicola Hix, affirmed that Officers were in the process of setting up the Performance, Risk and Budget Board. She pointed out that the outstanding audit recommendations and the risk report would be discussed there and that the Risk Manager and the Equalities and Risk Manager were also part of the office group that were looking at the tender references for that Board.

Ms Hix suggested that they take away some of the aspirations and concerns of the Audit Committee and feed that in to the board. She suggested that this could be the Officer's forum to feed up into Audit Committee. The Board could be used as a sounding board to disseminate information and gather information across the organisation and bring it up to Audit Committee.

The Audit Committee noted the report.

19 **External Audit Plan Report for Somerset County Council 2022-2023** - Agenda Item 7

The Director of Audit Quality at Grant Thornton, Barrie Morris, confirmed that the above agenda item contained two reports. The Audit Plan Report for Somerset

County Council and Somerset West and Taunton.

He gave an overview of the planned scope and timing of the statutory audit of Somerset County Council and Somerset West and Taunton.

He confirmed that the Sedgemoor Audit was being finalised and would be signed relatively soon.

He mentioned that the 2021-22 audits for South Somerset District Council and Sedgemoor District Council were paused whilst Grant Thornton were undertaking their NHS audit work and these audits were recommencing from Monday.

Mr Morris confirmed that the government deadline of 30th September for the completion of the audits would not be reached. However, Grant Thornton would prioritise this Council's audits once the structure of the audits has been discussed with the S.151 Officer and finance team.

He apologised for the unacceptable position that the accounting profession was in but indicated that this was a notional problem and that Grant Thornton were one of the firms which were in a better position than the others. The government is looking at what they could do to get the accounting firms back on track.

He confirmed that the former Somerset Council and District Councils were not in a bad position compared to the position nationally.

The Public Sector Audit Manager at Grant Thornton, Liam Royle, presented the report on the Somerset County Council Plan noting that there were 5 bodies that they were responsible for reporting on. The 6th body in Somerset, was Mendip District Council but they had different accountants representing them, Ernst & Young.

He went on to explain how they were going to approach the audit in relation to the 5 bodies, highlighted the significant risks (which at the County was around revenue transactions, specifically on the fees and charges balances), as well as management override and controls, evaluation of land and buildings, assets and valuation of the pension fund net liability.

Mr Royle highlighted the risks and weaknesses around value for money as a result of 5 bodies merging into one council.

Mr Morris, confirmed that this entailed looking back at the arrangements as the new Council started. However, he stated that the new code did give them the ability to report issues in a timely way and if there was something that impacted on the 23/24 audit they would be able to bring it to the Committees attention in a timely way.

The Chair queried whether the IT audit strategy would be implemented as part of the Microsoft Dynamics program which was taking over the accounting package for the Somerset Council. Liam Royle confirmed that it would not form part of the 22/23 audit but in the future it would be part of the audit strategy under the S.351 arrangement. The Chair confirmed that this underpinned the quality of all of the financial information that the authority would produce and he welcomed internal and external support to ensure that there was confidence in the quality of the financial information that the system produced in order to remain transparent to the public.

The Service Director Finance & Procurement, Nicola Hix, confirmed that the program worked very well and was being implemented. There was a triage team from Ernst & Young who helped put the system in and they were firstly working to clear the backlog of paying suppliers and hopefully the Council would be in a better position in three to four weeks' time to start reporting.

Cllr Mandy Chilcot queried the significant risks identified around fees and charges and other service income and wanted more to be included in budgeting reporting moving forward.

She further asked for clarification of the amount of £20 000 which was referred to as new NAO requirements which was 25% of the actual scale fee.

The Director of Audit Quality at Grant Thornton, Barrie Morris, confirmed that the National Audit Office (NAO) requirement fee had, in fact, not been changed for 3 years. The report reflected how the fee had been built up over the last 3 years and the figure has been added onto. The new value for money work was introduced in 2019/2020. The Public Sector Audit Appointments Limited (PSAA) approved this Value for Money every year and wanted it reflected separately in order to be transparent for authorities to see how the fee had built up over the years. The auditing industry was under close scrutiny since the Redmond Review.

The Chair requested clarification on why the NHS audit took priority over the Council's audit, which boiled down to the timing of the audits.

Cllr Lee Baker enquired what process the auditors had for reporting back to the Committee expeditiously when a discrepancy was picked up.

Mr Morris confirmed that they escalate challenges if there are deficiencies and their arrangements through Executive Officers at the Council and then they in turn go to the Audit Committee Chair and Vice Chair to brief them.

The Chair confirmed that the management of the portfolio of the investment properties and assets inherited from these two legacy Councils was one of his top priorities.

The Audit Committee noted the report.

20 **External Audit Plan for Somerset Pension Fund - June 2022-2023** - Agenda Item 8

The Public Sector Audit Manager, Liam Royle, presented his report and noted that the 22/23 year is a triennial review year for English Local Government Pension Scheme (LGPS) funds with a new baseline set per the data as 31st March 2022 to be used for the next three years. He noted that this would impact fees.

He highlighted the significant risks and further drew attention to the disclosure of audit related services, the ISA19 letters. He explained that this meant they finish this work in order to enable the work of the other audits to be signed off. They essentially issued the assurance to the other auditors, (Ernst & Young who audit Mendip District Council, for example) which gave them assurance that they could place some reliance on the estimate for pensions.

The Pension Fund Manager, Anton Sweet, mentioned the deficit and the Committee undertook to discuss this further to strategize how to get the deficit down.

The Chair pointed out that the Pension Fund's net liabilities had already been massively reduced from March 2022 to March 2023.

The Audit Committee noted the report.

21 **Strategic Risk Review Report** - Agenda Item 9

The Corporate Risk Manager Somerset Council went through the Strategic Risk Report for Somerset Council.

She confirmed that 17 risk were identified.

- 7 were new strategic risks.

- 6 were continuing strategic risks of the former Somerset County Council
- 4 were emerging risks.

This list would be reviewed by a meeting of the Corporate Leadership Team in July, latest August, and then would be brought to the committee again in time for the next audit meeting.

After discussions surrounding the level of engagement and support after the old County Council ended, it was decided that The Chair meet with The Corporate Risk Manager and the Equalities and Risk Manager regarding risk engagement, reporting and risk visibility for Members in order to improve the understanding of risk across the organisation and this would be put on the agenda for the next Audit meeting in August.

Cllr Mandy Chilcott asked for clarification on an item that was 477 days overdue and the S.151 Officer undertook to work with Executive Directors and the Corporate Management Team regarding the organisation and direction of travel for risk, including risk reporting, engagement and that strategic risks are regularly updated. This would be brought to the 24 August 2023 Audit Committee meeting.

The Audit Committee noted the report.

22 Draft Annual Governance Statement - Agenda Item 10

The Chair introduced the item, highlighting the publication omission of the Annual Governance Statement reports for Somerset West and Taunton Council and South Somerset District Council, advising that the reports to be circulated to all Committee members for review and comment.

The Director of Resources and Corporate Services, Jason Vaughan, further added to the above points; that the Annual Governance Statement of the five predecessor Councils have been published though the respective Councils process, and available in the public domain; that the five predecessor Councils Annual Governance Statement to be brought to the Audit Committee as one report, 24 August 2023.

The Audit Committee noted the report.

23 Update on the Expected Completed Statements of Accounts - Agenda Item 11

The Executive Director, Jason Vaughan, gave a verbal update on the expected completed statements of accounts, highlighting the national picture and the backlogs of outstanding audits; explained the key drivers and risks of publishing the accounts.

The Service Director, Finance and Procurement, Nicola Hix provided an update on the current position and publishing dates of the five predecessor Councils accounts.

The Audit Committee noted the verbal update.

24 Audit Committee Workplan 2023-2024 - Agenda Item 12

The Committee noted the Audit Committee work plan.

25 Any other Business - Agenda Item 13

(The meeting ended at 12.02 pm)

....

CHAIR

SSDC – Grant Thornton External Audit Update for Financial Year 2021/22

Executive Member(s): Cllr Liz Leyshon Deputy Leader and Lead Member for Resources and Performance
Lead Officer: Jason Vaughan – Executive Director Resources and Corporate Services
Author: Donna Parham – Head of Corporate Finance
Contact Details: donna.parham@somerset.gov.uk

1. Summary / Background

The external audits for 2021/22 and 2022/23 for South Somerset District Council have yet to be completed. The attached Appendix updates the position of the South Somerset District Council audit for 2021/22.

The Somerset Council Audit Committee will need to provide the governance overview and consideration of all legacy Councils outstanding Statement of Accounts. This will include 2021/22 for South Somerset District Council, Mendip District Council, and Sedgemoor District Councils as well as 2022/23 for those Councils plus Somerset Council and Somerset West and Taunton Council.

2. Recommendations

The Audit Committee

2.1. Notes the update from Grant Thornton for South Somerset District Council for 2021/22

2.2. Notes the expected sign off date of 26th October 2023 (the next Audit Committee)

2.3. Notes the additional fees as set out in the attached Appendix.

3. Reasons for recommendations

The Audit Committee terms of reference include:

- Monitoring of the arrangements and preparations for financial reporting to ensure that statutory requirements and professional standards can be met.
- Reviewing the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.
- To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

4. **Other options considered**

No other options have been considered

5. **Links to Council Plan and Medium-Term Financial Plan**

It is important for Somerset Council to ensure that all audits are completed and an opinion provided for all legacy Councils. This ensures that the opening balances for the new Council are correct. This is particularly important for reserves and capital receipts to ensure that the Council can plan effectively.

6. **Financial and Risk Implications**

There are no financial implications of noting this report, however the cost of the audit because of delays has increased by £20k with further fees due to finalise the audit. Further officer resource has been allocated to the Statement of Accounts to reach a conclusion as soon as possible.

7. **Legal Implications**

There are no legal implications of approving the recommendations.

8. **HR Implications**

There are no HR implications of approving this report.

9. **Other Implications:**

9.1. **Equalities Implications**

There are no equalities implications from approving this report.

1.1. **Community Safety Implications**

There are no community safety implications from approving this report.

1.2. **Climate Change and Sustainability Implications**

Somerset Council have declared both a Climate and Ecological Emergency. Through that, the Council has committed to working towards making the whole county, including our own estate and operations, 'Carbon Neutral' by 2030 and to take positive action to reverse the damage on our natural habitats by man-made activity. We have also pledged to ensure that Somerset is resilient to, and prepared for, the effects of Climate Change. There are no implications from approving this report.

1.3. **Health and Safety Implications**

There are no health and safety implications from approving this report.

2. **Social Value**

There are no social value implications from approving this report.

3. **Background**

On the 1st April 2023 Somerset Council replaced the five legacy Councils of Somerset County Council, Mendip District Council, Sedgemoor District Council, Somerset West and Taunton Council and South Somerset District Council. At that date the following Councils had yet to receive audit opinions as follows:

- Mendip District Council – 2021/22
- Sedgemoor District Council - 2020/21 and 2021/22(2020/21 has since received the final audit opinion)
- South Somerset District Council - 2021/22

Somerset Council must provide 2022/23 Statement of Accounts for each of the legacy Councils and the Pension Fund. This has been resource intensive. All accounts are now published and are at different stages of the audit process.

4. **Report**

This report sets out the position for South Somerset's 2021/22 accounts. The progress report from Grant Thornton is attached and outlines that:

- Resources to complete audit queries on behalf of the Council has caused delays.
- Reassurances have been given from senior management that this will improve.
- If queries are answered in a timely way then completion is possible by the October Audit Committee.
- Delays have meant that additional audit fees of £20k will apply.

Barrie Morris and Beth AC Bowers from Grant Thornton will be attending the committee remotely to go through the report and update members with current position.

5. **Background Papers**

Report to Executive Committee 2nd August 2023.

6. **Appendices**

- As attached

Grant Thornton

External Audit Update for South Somerset District Council

Year ended 31 March 2022

South Somerset District Council

September 2023

1. External Audit Progress at September 2023

2021-22	An interim Audit Findings Report was presented to the final Audit Committee of South Somerset District Council before the entity ceased to exist and assets and liabilities transferred into the new Somerset Council from 1 April 2023. Since the report was produced in March 2023, the audit team have continued to progress audit work working towards completion at the end of September 2023. We set out below the reasons that this timeframe has not been met. • As in the previous year of audit, we have experienced challenges with the loss of corporate experience at the council, meaning that queries take longer to resolve and there is an increased need for further follow up queries. • For the period between April and mid-August, the legacy council's finance team were focused on preparing the draft financial statements for 2022-23. This, combined with the completion of business as usual and other projects led to much slower response times. • We have escalated our concerns to senior management about the prioritisation of resources to address audit queries and conclude the audit as promptly as possible. These additional queries and delays have required additional audit resources to be deployed. Given the need for additional audit resources we are proposing additional fees to cover the additional costs we have incurred, which are set out in appendix D. These fees have been discussed with management and are subject to approval by PSAA prior to finalising. As the audit has not yet been completed, there will be further costs to complete and associated fees will communicate in our Audit Findings report. We have agreed with management that we are now seeking to complete the audit in time for the Audit Committee at the end of October 2023 where a final Audit Findings Report will be presented.

2. Outstanding areas at September 2023

2021-22

- The following areas remain either in progress or subject to manager and Key Audit Partner review:
  - Journal entries
  - Other Information
  - Cash Flow Statement
  - MIRS Statement
  - Expenditure & Funding Analysis
  - Revaluation of PPE and Investment Properties
  - Inventories
  - Investments
  - Debtors
  - Cash
  - Creditors
  - Pension Liability
  - Fees & Charges
  - Grant Income, including grants received in advanced
  - Employee benefit expenditure
  - Completeness of expenditure
  - Financial Instruments
  - Remuneration disclosures
  - Income & expenditure disclosures
  - Capital Disclosures
  - Collection Fund
  - Accounting Estimates
  - Consolidated Group accounts
  - Concluding procedures
  - We are awaiting an updated IAS 19 assurance letter from the auditor of Somerset Pension fund in relation to updated triennial membership data as at 31 March 2022.

Appendices

A. Action plan – Audit of Financial Statements

We have identified 2 recommendations for the group as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Page 29	We identified that the council had a lower than expected salary assumption percentage included in it's IAS 19 report for 2021-22.	We recommend that for future periods, the council reviews the IAS 19 reports to ensure that the actuary is using appropriate assumptions that reflect the market position and that challenge is raised where this is not the case. **Management response** SSDC accepts the recommendation, and this will be fed through to the new council to ensure that the assumptions in the IAS19 report are reviewed and a challenge to the actuary is made where required.
	As reported in the prior year, we identified several assets whose useful economic life was outside of the ranges identified in the council's policy.	We continue to recommend that management reviews its asset lives and associated policies for appropriateness. **Management response** SSDC accepts the recommendation, and this will be fed through to the new council to ensure that the asset lives and associated policies are reviewed and amended where required.

Key

- High – Significant control weakness or impact on financial statements
- Medium – Control deficiency and limited impact on the financial statements
- Low – Best practice

B. Follow up of prior year recommendations

We identified the following issues in the audit of South Somerset District Council's 2020/21 financial statements, which resulted in 11 recommendations being reported in our 2020/21 Audit Findings report. We have followed up on the implementation of our recommendations and will provide a further report on the conclusion of our audit work.

Page 30

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
Partially	We experienced issues with understanding some of the supporting working papers, several which were produced by staff who have since left the organisation. We also experienced some issues with the supporting evidence provided to us and had to request additional evidence to support items selected for testing. We encountered unnecessary challenge and inappropriate communications from some members of the Council's staff. This has hampered the efficient and effective delivery of the audit.	While we have continued to experience some difficulties relating to understanding working papers produced by staff who have left the organisation, we are pleased to report that we have seen improvements in the communications of certain council staff.
TBC	Our valuations expert identified a number of recommendations in relation to the council's Group PPE valuation model.	Management have requested that their expert review and update valuation reports having regard to the findings raised by our auditor's expert in 2020-21. Our work in this area is still in progress.
TBC	As part of our testing of the obsolescence factor used in DRC valuations, we challenged officers as to how they had determined the specific factor for each asset. We received a detailed explanation with an example of the valuer's rationale for one property, but none of this information was noted within the individual asset valuation report, or corroborated by evidence.	Our work on Property Plant and Equipment is in it's early stages due to a delay in receipt of key working papers.
✓	As part of our testing of the senior officer remuneration note, we identified a lack of formalised arrangements for the council's previous monitoring officer. The monitoring officer was seconded from another council on a temporary basis. The original contract for the service ended in July 2020 however the council continued with the arrangement without a formal contract in place until March 2021. Our inquires identified that finance, payroll and HR staff did not have any details of the arrangements.	We understand management has undertaken a review of all secondment arrangements. Our work on Senior Officer remuneration has not identified concerns to date.
X	We identified a number of assets that had a useful life which was outside of the stated range within the council's policy.	Our work has identified continued exceptions in this area in 2021-22.

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
TBC	This is the second year that we have identified issues with the agreement of floor areas as part of our testing of the Council's internal valuations. There is a risk that the Council is not keeping appropriate records of their properties in order to support valuations.	Our work on Property Plant and Equipment is in it's early stages due to a delay in receipt of key working papers.
TBC	Testing of journal entries identified nine journals that had not been authorised appropriately due to a batch type being excluded from authorisation reports.	Our work in this area is in progress.
TBC	Testing of the annual leave accrual back to payroll / contract data identified some errors. Once extrapolated this indicated the accrual was understated by approximately £19k. There is a risk that the council's accrual will be based on incorrect data if amounts are not able to be agreed to contractual data.	Our work in this area is in progress.
TBC	As part of our debtors testing, we identified a number of debts that had not been paid and were well overdue.	Our work in this area is in progress.
Partially	Within the opening balances of the council's fixed asset register, we identified a difference in the net book value and gross book values of Investment properties and heritage assets, where we would expect these assets to have the same values, due to their revaluation as at the balance sheet date. The council has stated that this difference has arisen as a result of the historical cost depreciation.	Our work in 2021-22 did not identify any difference between the Heritage Asset gross book value and net book value. We have identified one reconciliation difference relating to Investment property which we are currently discussing with management.
TBC	We identified as part of our review of the final set of financial statements that management had made a £191k adjustment to creditors, but we were unable to reconcile this to any agreed audit adjustment. Management are satisfied that the accounts would not have been updated were the adjustments not appropriate, but are unable to provide supporting evidence as to why they have been made.	Our work is in progress and to date we have not identified any adjustments that management are not able to explain.

Page 31

Assessment

✓ Action completed

X Not yet addressed

C. Audit Adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2022.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
The council's Pension liability values were restated after a change to the future salary assumptions resulting in a material adjustment to the net pension liability as well as changed to the disclosure note.	7,099	7,099	7,099
The council treated a number of grants as though they were principal within their draft financial statements, despite them being agency grants	Dr Income 13,887 Cr Expenditure 19,326	Dr Debtors 5,438	Cr Reserves 5,438
Overall impact	£1,661	£1,661	£1,661

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.

Page 33

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	Auditor recommendations	Adjusted?
As a result of the updated actuarial report that was obtained, the net pension liability notes were adjusted to reflect the new asset and liability position and updated salary assumption from 2% to 4%.	Management is in the process of updating their draft accounts for all the relevant changes.	✓
General typographical errors and presentational and grammar changes as well as amendments to years or notes were made.	Management is in the process of updating their draft accounts for all the relevant changes.	✓
Note 42, Related Party Transactions disclosed £34,909 of transactions with Royal Mail. Having reviewed, we confirmed that this should be disclosed as £39,409.	Management is in the process of updating their draft accounts for all the relevant changes.	TBC
The depreciation balance disclosed in Note 7 was £2.074m, but it was determined that it should be £1.92m and that incorrect mapping had led to the wrong value being disclosed.	Management is in the process of updating their draft accounts for all the relevant changes.	TBC
We have noted that as part of audit procedures, the prior year 2020/21 audit costs note has been amended from £67,000.00 to £206,000.00 to match the final fee charged for the year. As the final fees were approved by PSAA after the finalisation of the accounts, and we would not expect an immaterial prior period adjustment to be made, the council has processed an adjustment to reflect the additional fees in the 2021/22 financial statements	Management is in the process of updating their draft accounts for all the relevant changes.	TBC
The council's operating leases note double counted one property requiring adjustment of the total future leases payment receivable which from £39,948k to £43,083k.	Management is in the process of updating their draft accounts for all the relevant changes.	TBC

C. Audit Adjustments

Impact of unadjusted misstatements

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

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000	Reason for not adjusting
In our view the council should be providing for MRP on capital loans to third parties.	206	£nil	206	The council does not agree that statutory guidance indicates a need to provide for MRP on commercial loans to third parties.
Overall impact	£206	£nil	£206	

C. Audit Adjustments

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

C. Audit Adjustments

Impact of prior year unadjusted misstatements continued

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
We identified that management are not providing for Minimum Revenue Provision (MRP) on commercial loans. As noted on page 19 in our view this is not in line with the prudential code and as a result the MRP is understated for the current year.	£776	£nil	£776	Not material
Our testing of a sample of grant income identified one grant that related to 2021-22 but had been accounted for in 2020-21. Income is overstated by £242k.	£242	£nil	£242	Not material
Our review of the final version of financial statements identified a debit adjustment to Creditors of £191k which management were unable to explain at the time of concluding. The adjustment reduces creditors, therefore we have reported it as an unadjusted error as we are unable to understand the adjustment.	£191	Cr Creditors £191	£191	Not material
Overall impact	**£1,078**	**£1,085**	**£1,078**	

D. Fees

Audit fees	Estimated fee
Scale fee	37,943
Raising the bar/regulatory factors	2,500
Enhanced audit procedures for Property, Plant and Equipment	1,750
Enhanced audit procedures for Pension Liabilities (IAS19)	1,750
Additional work on Value for Money (VfM) under new NAO Code	9,000
Increased audit requirements of revised ISAs 540 / 240 / 700	6,500
Group	4,000
Use of expert – estimated cost for Group PPE (review of 3 models)	20,000
Use of expert – Investment Property review	5,000
Use of expert – audit team review and liaison	5,000
Additional audit procedures arising from a lower materiality	5,000
Additional procedures to address issues identified in the prior year	3,000
Additional procedures to address issues in MRP	2,500
Additional procedures regarding triennial review updates for Pension Liabilities	6,000
Additional procedures regarding pension assumptions – change in salary assumption	3,500
Agency Grants adjustment	1,500
Reperformance of ECL calculations after new loans were excluded from original work	500
Discussion on potential objection	500
Inventories	5,000
Quality of evidence returned - Debtors, Creditors, expenditure, income	5,000
Estimated fee as at August 2023	**£125,943**

grantthornton.co.uk

SDC – Grant Thornton External Audit Conclusion for Financial Year 2021/22

Executive Member(s): Cllr Liz Leyshon Deputy Leader and Lead Member for
Lead Officer: Jason Vaughan – Executive Director Resources and Corporate Services
Author: Donna Parham – Head of Corporate Finance
Contact Details: donna.parham@somerset.gov.uk

1. **Summary / Background**

The external audit 2022/23 for Sedgemoor District Council has yet to be completed. The attached Statement of Accounts and Audit Findings will conclude the audit for 2021/22 if approved.

The Somerset Council Audit Committee will need to provide the governance overview and consideration of all legacy Councils outstanding Statement of Accounts. This will include 2021/22 for South Somerset District Council, Mendip District Council, and Sedgemoor District Councils as well as 2022/23 for those Councils plus Somerset Council and Somerset West and Taunton Council.

2. **Recommendations**

The Audit Committee

2.1. Approves the Statement of Accounts as attached for Sedgemoor District Council for 2021/22

2.2. Notes the Audit Findings report from Grant Thornton

2.3. Notes the additional fees as set out in the attached Appendix

2.4. Approves the signing of the attached Letter of Representation

3. **Reasons for recommendations**

The Audit Committee terms of reference include:

- Monitoring of the arrangements and preparations for financial reporting to ensure that statutory requirements and professional standards can be met.
- Reviewing the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.
- To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

4. **Other options considered**

No other options have been considered

5. **Links to Council Plan and Medium-Term Financial Plan**

It is important for Somerset Council to ensure that all audits are completed and an opinion provided for all legacy Councils. This ensures that the opening balances for the new Council are correct. This is particularly important for reserves and capital receipts to ensure that the Council can plan effectively.

6. **Financial and Risk Implications**

There are no financial implications of noting this report, however the cost of the audit because of the triennial pension review has increased by £6k.

7. **Legal Implications**

There are no legal implications of approving the recommendations.

8. **HR Implications**

There are no HR implications of approving this report.

9. **Other Implications:**

9.1. **Equalities Implications**

There are no equalities implications from approving this report.

9.2. **Community Safety Implications**

There are no community safety implications from approving this report.

9.3. **Climate Change and Sustainability Implications**

Somerset Council have declared both a Climate and Ecological Emergency. Through that, the Council has committed to working towards making the whole county, including our own estate and operations, 'Carbon Neutral' by 2030 and to take positive action to reverse the damage on our natural habitats by man-made activity. We have also pledged to ensure that Somerset is resilient to, and prepared for, the effects of Climate Change. There are no implications from approving this report.

9.4. **Health and Safety Implications**

There are no health and safety implications from approving this report.

10. **Social Value**

There are no social value implications from approving this report.

11. **Background**

On the 1st April 2023 Somerset Council replaced the five legacy Councils of Somerset County Council, Mendip District Council, Sedgemoor District Council, Somerset West and Taunton Council and South Somerset District Council. At that date the following Councils had yet to receive audit opinions as follows:

- Mendip District Council – 2021/22
- Sedgemoor District Council - 2020/21 and 2021/22(2020/21 has since received the final audit opinion and this report should conclude 2021/22)
- South Somerset District Council - 2021/22

Somerset Council must provide 2022/23 Statement of Accounts for each of the legacy Councils and the Pension Fund. This has been resource intensive. All accounts are now published and are at different stages of the audit process.

12. **Report**

This report requests that the Audit Committee approves the 2021/22 Sedgemoor District Council Accounts and notes the Audit Findings Report from Grant Thornton. As the 2021/22 Statement of Accounts had not been concluded The Triennial Pensions Review had an impact on the figures within the accounts. A further report was commissioned from the Pension Fund and the Statement of Accounts were amended accordingly. The additional audit work to review these is a further £6k in fees.

David Johnson from Grant Thornton will be attending the committee in person to go through the Findings Report.

13. **Background Papers**

Report to Executive Committee 2nd August 2023.

14. **Appendices**

- As attached

The Audit Findings for Sedgemoor District Council

Year ended 31 March 2022

September 2023

Contents

Your key Grant Thornton team members are:

Julie Masci
Key Audit Partner
E julie.masci@uk.gt.com

David Johnson
Audit Manager
E davd.a.johnson@uk.gt.com

George Amos
Assistant Manager
E george.wm.amos@uk.gt.com

The Key Audit Partner(s) for Authority's Material Subsidiaries are :

Nathan Coughlin

Firm : Bishop Fleming UK LLP

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 & Standards Committee.

Julie Masci

Name : Julie Masci
For Grant Thornton UK LLP
Date : 12 September 2023

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Sedgemoor District Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2022 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the group and Council's financial statements give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and, 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 October 2022 to March 2023. Our findings are summarised on pages 2 to 19. From this work, we identified one adjustment to the financial statements that has resulted in a £2.6m adjustment to the Council's Comprehensive Income and Expenditure Statement. All unsigned audits for 2021-22 were paused at the 31 March 2023 to consider the impact of publication of the results of the triennial actuarial review of pensions valuations. This resulted in changes in member numbers within pension funds and has led to a material adjustment in the pension liability disclosures for the Council as at 31 March. We have discussed this issue with the NAO and FRC to understand the impact and the disclosure requirements. This has required management to commission a new actuarial valuation and adjust the accounts accordingly. This Audit Findings Report updates the final position in response to the additional work required.

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 complete and there are no matters we have identified that would require a material changes to the 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 unqualified including an Emphasis of Matter paragraph highlighting the Council's demise, and the commencement of the new Somerset Council on 1 April 2023.

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 2021-22 VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which was presented to the Sedgemoor Audit and Standards Committee in March 2023. We identified a significant weakness in the Council's arrangements and so are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. A summary of our findings are set out in the value for money arrangements section of this report.

Statutory duties	
The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • to certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties We have completed our work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.
Significant Matters	We identified Investment properties revaluations and as a significant matters during the course of our work, as detailed in Section 2 of our report.

Page 46

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 & standards 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 group's business and is risk based, and in particular included:

- An evaluation of the group's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that an audit of Homes in Sedgemoor was required, which was completed by Bishop Fleming UK LLP; and
- 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 completed our audit of your financial statements and we propose to issue an unqualified audit opinion, with an emphasis of matter, following approval of the revised financial statements at the Council's Audit Committee on 28 September 2023.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. As highlighted in our previous reports, the impact of the pandemic has meant that both your finance team and our audit team faced audit challenges again this year, such as remote accessing financial systems, video calling, physical verification of assets, verifying the completeness and accuracy of information provided remotely produced by the entity, access to key data from Council staff . This resulted in us having to carry out additional audit procedures to gain sufficient audit assurance in respect of our auditor's opinion on the financial statements.

2. Financial Statements

Page 48

Our approach to materiality

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

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

We detail in the table our determination of materiality for Sedgemoor District Council

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,480,000	1,460,000	Materiality has been based on 2% of the Authority's gross expenditure
Performance materiality	1,110,000	1,095,000	Our performance materiality has been set as 75% of our overall materiality
Trivial matters	73,000	73,000	This is set at 5% of financial statements materiality and reflects a level below which stakeholders are unlikely to be concerned by uncertainties

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 override of controls is present in all entities. The Authority face external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates, and transactions outside the course of business as a significant risk for the Council, which was one of the most significant assessed risks of material misstatement	We have: • evaluated the design effectiveness of management controls over journals, including undertaking a walkthrough of the process and controls. No issues were identified from completion of this • obtained a full download of the general ledger alongside the trial balance and uploaded these onto our data analysis software, Inflo. • Inflo undertakes a number of checks on the data such as unbalanced transactions, unbalanced user IDs and transactions with blank account descriptions. Where any differences were noted by Inflo, we followed these up with the Council and obtained sufficient explanations and corroborations for these. • we have reviewed the manual journals within inflo to identify those deemed to be high risk to be selected for testing. We selected and shared the sample of journals with the Council for them to provide us with evidence to support the entries and will complete our testing upon receipt of the supporting documentation. Our testing has not identified any issues in respect of management override of controls.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Risk relate to	Commentary
ISA240 revenue risk - the Council's reported revenue contains fraudulent transactions (rebutted) Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	All group entities	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Sedgemoor District Council, mean that all forms of fraud are seen as unacceptable. • The majority of income in subsidiaries is a single source of funding from the Council in the form of a small number of management fees or loan transactions which are easily verifiable. This, along with minimal third party income, means there a limited opportunities to manipulate revenue. Therefore we do not consider this to be a significant risk for Sedgemoor District Council
The expenditure cycle includes fraudulent transactions Practice note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states: "As most public bodies are net spending bodies, then the risk of material misstatements due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition." Public sector auditors therefore, need to consider whether they have any significant concerns about fraudulent financial reporting of expenditure which would need to be treated as a significant risk for the audit	All group entities	We have considered both pay and non pay costs and considered there to be little opportunity for fraudulent transactions. Pay costs are determined b employee contracts and are standard monthly payments. Non pay costs are based on supplier invoice transactions and have to be paid within a set timeframe. As part of the audit we have considered the completeness, accuracy and occurrence of expenditure transactions by: • Evaluating the design and implementation effectiveness of the accounts payable process • Testing a sample of transactions incurred around the year end to ensure these have been accounted for in the appropriate financial period • Testing a sample of accruals made at year end that have not yet been invoiced to assess whether the valuation has been calculated on an appropriate basis. Therefore we do not consider this to be a significant risk for Sedgemoor District Council and have rebutted this presumed risk. Our testing has not identified any issues in relation to fraudulent transactions in the expenditure cycle

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Risk relate to	Commentary
Valuation of land and buildings The group revalue its land and buildings, including HRA properties, on an annual basis to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets) at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Management use the services of an internal valuer to estimate the current value as at 31 March 2022. 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.	Council and Aspen Housing & development Ltd	We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation expert and the scope of their work. • evaluated the competence, capabilities and objectivity of the valuation expert. • written to the valuer to confirm the basis on which the valuations were carried out. • reviewed the fixed asset register and valuation reports to identify a sample of land and buildings which have been revalued in year for further testing. In doing this we considered those assets whose values at 31 March 2022 are above performance materiality, those assets where there has been a valuation movement or other change outside of our expectation and a sample of assets where the movement is in line with expectation • for each item within our sample requested detailed calculation sheets for the 2022 revaluation exercise to support and evidence the assumptions used to calculate the updated valuations. Our testing identified an error in the calculation of the HRA valuation. Management had used the wrong values for the Beacon properties and therefore the value was understated by £7.25m. This was an error in calculation and not the valuation process. No other issues have been identified from this work.
Valuation of Investment Property The Council revalue Investment Properties annually. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£39.6m) and the sensitivity of this estimate to changes in key assumptions. We therefore identified valuation of Investment Properties, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	Council	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 report; • Written to the valuer to confirm the basis on which the valuations were carried out; • Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • Tested revaluations made during the year to see if they have been input correctly into the Council's asset register; • Tested on a sample basis, revaluations made during the year to ensure they have been input correctly into the Council's asset register. We have been provided with evidence by management and have agreed movements in year back to the supporting documentation Testing to date has identified one investment property which had been revalued by the valuer but had not been appropriately disclosed in the statement of accounts. The Council had not used the revised valuation and therefore the asset was overstated by £2.6m. This has required a material adjustment to the primary statements. Management review also identified that investment property income had been incorrectly recognised in the net cost of services rather than within the surplus or deficit on the provision of services. This has resulted in £1.9m adjustment and a prior period adjustment The adjustments are shown in appendix C and recommendations have been raised.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Risk relates to	Commentary
Valuation of Council Dwellings The group revalue its land and buildings, including HRA properties, on an annual basis to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets) at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Management use the services of an internal valuer to estimate the current value as at 31 March 2022. 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.	Council	We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation expert and the scope of their work. • evaluated the competence, capabilities and objectivity of the valuation expert. • written to the valuer to confirm the basis on which the valuations were carried out. • Reviewed management's assumptions on the categorisation of Beacon properties to ensure Council Dwellings were appropriately allocated in line with the requirements of the Code and in line with the Stock valuation resource accounting 2016:guidance for valuers provided by central government • Tested on a sample basis revaluations made in the year to ensure these have been completed appropriately and input correctly into the Council's assets register We have not identified any issues in relation to this risk.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary

Valuation of pension fund net liability

The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.
The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£80.9m in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.

The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.

The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.

The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 2% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Council's pension fund net liability as a significant risk.

Commentary

We:

- Updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls;
- Evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- Assessed the competence, capabilities and objectivity of the actuary who carried out the 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
- Undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report;
- We have discussed with the pension fund auditor 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. Additional queries have been required to be made following clarification by the regulators that they expect admitted body auditors to gain sufficient assurances over the independent valuation of all investment assets and controls within the Pension Fund. We have requested this information and have been provided with a response by the Pension fund auditor. We have reviewed this information and no further issues have been identified.

As highlighted earlier in our report, all unsigned audits for 2021-22 were paused at the 31 March 2023 to consider the impact of publication of the results of the triennial actuarial review of pensions valuations. This resulted in changes in member numbers within pension funds and has led to a material adjustment in the pension liability disclosures for the Council as at 31 March 2022. This has required management to commission a new actuarial valuation and adjust the accounts accordingly. The Council has prepared revised financial statements reflecting the new actuarial assumptions relevant to 31 March 2022. This has resulted in an overall reduction to the Council's net pensions liability of £9.9m.

We have performed additional audit procedures to ensure the revised pension valuation has been adjusted appropriately within the financial statements, as we as performed additional member data testing on the inputs used to inform the actuary's triennial valuation of the fund as a whole. Furthermore, we have reviewed the revised actuarial assumptions used by the actuary in preparing its revised valuation and we are satisfied that these revised assumptions are within expected tolerances as set out by our consulting actuary (as auditor's expert).

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

Component	Component auditor	Findings	Group audit impact
Sedgemoor District Council	Grant Thornton	See pages 7-11 for significant risks work undertaken and any issues identified	There is no impact on the group audit opinion.
Homes In Sedgemoor	Bishop Fleming	Full scope UK statutory audit performed by Homes in Sedgemoor Auditors, Bishop Fleming. The nature, time and extent of our involvement in the work included a discussion on risks, followed by the review of relevant aspects of the Homes in Sedgemoor auditor's audit documentation and meeting with appropriate members of management. A review of the Pension Liability, cash, debtors, creditors and payroll was undertaken to provide assurance to the overall group position. Bishop Fleming have completed their audit and issued an unqualified opinion.	As part of our review of the group accounts we have undertaken a review of the component auditors work to ensure that key risks have been addressed and that no issues which would impact on the group opinion had been identified. Our work has not identified any issues in relation to the audit of the component.
Sedgemoor Group Ltd	Grant Thornton	This is a no significant component and work is limited to analytical review of the transactions relating to the component	Our work has not identified any issues in relation to this component.
Aspen Housing & Development Ltd	Grant Thornton	Aspen Housing has one asset that is contained within the group balance sheet. We have included this asset in our PPE work to ensure that is appropriately valued.	Our work has not identified any issues in relation to this component.

2. Financial Statements – key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £22.975m Investment Property valuations - £39.536m	Other land and buildings comprises of 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 reminder 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. Surplus assets and Investment properties are valued at the highest and best values. The Council engages its external valuer to undertake the annual valuation. The Council's land and buildings, surplus assets and investment properties are revalued in full annually at the valuation date of 31 March. The total year end valuation of land and buildings was £22.975m, a net increase of £978k from the prior year (£21.997m)	We have reviewed the detail of your assessment of the estimate considering: • The assessment of the Council's external valuers • The completeness and accuracy of the underlying information used to determine the estimate • The reasonableness of the overall increase in the estimate • The adequacy of the disclosure of the estimate in the financial statements • The sensitivities used by the valuer to assess completeness and consistency with our understanding and • Consistency of the estimate against Gerald Eve reported indices Testing of the valuer's assumptions requires that sufficient evidence be provided to support any underlying assumptions or indices used to calculate a revaluation. Management have been able to provide appropriate audit evidence to support these underlying assumptions Testing has identified one investment property which had been revalued by the valuer but had not been appropriately disclosed in the statement of accounts. The Council had not used the revised valuation and therefore the asset was overstated by £2.6m. This has required a material adjustment to the primary statements.	Dark Purple

Page 55

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Buildings – Council Housing - £220.549m	The Council owns 4,031 dwellings and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged Wilks Head and Eve to complete the valuation of these properties. The year end valuation of Council Housing was £220.549m, a net increase of £17.712m from 2020/21 (£202.837m).	Council dwellings represent a significant proportion (£195m) of the Council's asset base and in accordance with the CIPFA code, these assets are valued in line with the Stock valuation resource accounting 2016:guidance for valuers which has been provided by Central Government. We have assessed the Council's valuer to be competent, capable and objective. We have carried out completeness and accuracy testing of the underlying information provided to the valuer used to determine the estimate and have no issues to report. The valuation method remains consistent with the prior year although we are still to complete our work in this area. We will carry out sample testing of beacon properties to test the reasonableness of the beacon applied and any issues will be reported to management. We have undertaken a review of the values against the Gerald Eve trends to ensure that there is not a material variance between the fair value and the market value. We have agreed the HRA valuation report to the Statement of Accounts. Our testing identified an error in the calculation of the HRA valuation. Management had used the wrong values for the Beacon properties and therefore the value was understated by £7.25m. This was an error in calculation and not the valuation process.	Dark Purple

Page 56

Assessment

- Dark 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

Page 57

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability	The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The draft accounts were initially prepared based latest on the full actuarial valuation completed in 2020 setting the valuation as at 31 March 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. Since commencing our audit, a revised triennial valuation has been prepared updating the actuarial valuation as at 31 March 2022.	• We identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. No issues were identified from our review of the controls in place. • We also evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuations and gained an understanding of the basis on which the valuations were carried out. This included undertaking procedures to confirm the reasonableness of the actuarial assumptions made:	Light Purple

Assumption	Actuary Value 2019 valuation	Revised Actuary Value 2022 valuation	Assessment
Discount rate	2.60%	2.60%	
Pension increase rate	3.60%	3.20%	
Salary growth	4.20%	4.20%	
Life expectancy – Males currently aged 45 / 65	24.4 / 23.1	22.6/21.3	
Life expectancy – Females currently aged 45 / 65	26.0 / 24.6	24.6/23.2	

- We checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial reports and did not identify any inconsistencies.
- The Council has considered that the impact of GMP equalisation is not material to the Statement of Accounts. Based on our review of this area we concur with this view.

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Grants Income Recognition and Presentation- £24.534m	The Council receives a number of grants and contributions and is required to follow the requirements set out in sections 2.3 and 2.6 of the Code. The main considerations are to determine whether the Council is acting as principal/ agent, and if there are any conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income. The Council also needs to assess whether grants are specific, and hence credited to service revenue accounts, or of a general or capital nature in which case they are credited to taxation and non-specific grant income. There is a requirement to assess whether income received has conditions attached and should therefore be considered grant income or another classification of income. This will allow the Council to ensure the correction presentation of revenue in line with the Code.	• We have reviewed management's processes for identifying whether they are agent or principal for grant income and ensured that the appropriate disclosures have been made in the statement of accounts • We have agreed a sample of grant income to third party documentation including the grant paying body to ensure that revenue has been correctly disclosed • We have reviewed supporting documentation to identify any conditions an ensure that the Council has complied with these • We have reviewed year end accruals to understand how these have been calculated and that these are appropriately accounted for. • We have reviewed the Council's assessment as to whether they are acting as principal or agent in the treatment and recognition of grant revenue, and specifically covid grant funding, and considered that this is appropriate We have not identified any issues in relation to this area and considered that the disclosures in the statement of accounts are appropriate.	Light Purple

Page 58

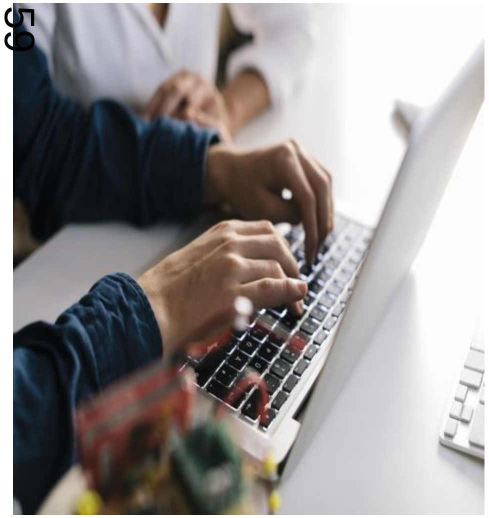
Assessment

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

2. Financial Statements - other communication requirements

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

Page 59



Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit & Standards Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed. Our testing identified two control issues in relation to related parties: • Declarations of interest were not received from all officers • Declarations received were not signed by a senior authority as correct and to ensure that returns have been completed in full.
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, including specific representations in respect of the Group.
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. We have yet to receive confirmation for four investment balances and continue to work with management to complete this process. Any issues identified from this work will be reported to members at Audit Committee. We requested from management permission to send confirmation requests to the Pension Fund auditor. This permission was granted and the requests were sent. This confirmation has been provided and no further issues have been identified.
Accounting practices	Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management were provided. We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

2. Financial Statements - other communication requirements

Page 60

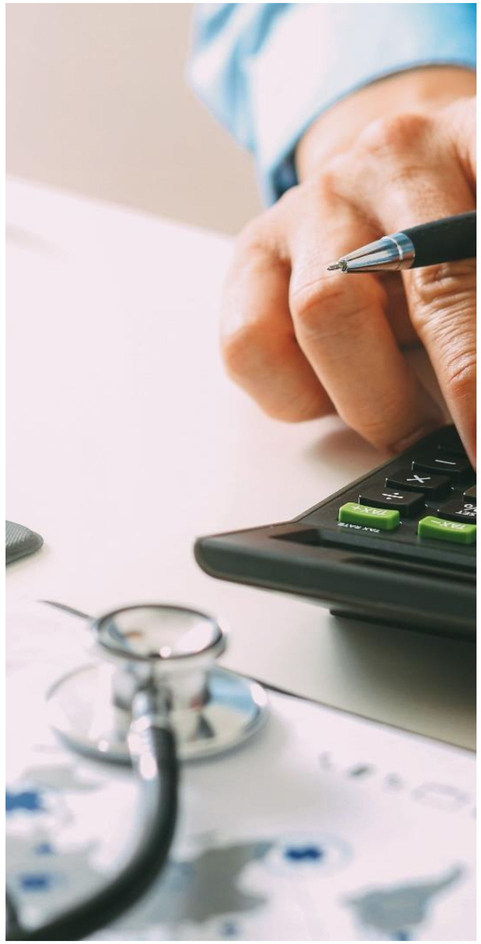
Our responsibility

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

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

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified.
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. This work is not required at Sedgemoor District Council as they do not exceed the threshold required tor the completion of this work.
Certification of the closure of the audit	We intend to certify the closure of the 2021-22 audit of Sedgemoor District Council in the audit report.



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 require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

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

Financial Sustainability

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

Governance

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

Potential types of recommendations

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

Statutory recommendation

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

Key recommendation

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

Improvement recommendation

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

3. VFM - our procedures and conclusions

We have 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. In the Audit Plan presented to Committee we identified two potential significant risks. Work undertaken did not identify any weaknesses in arrangements in these areas. During the course of the audit we identified a further significant weakness in the Council's Treasury Management arrangements and so are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The table below details the weakness identified and the work undertaken.

Page 63

Significant weakness identified during Audit	Procedures undertaken	Conclusion	Outcome
The CIPFA Treasury Management Code of Practice requires that as a minimum the Council should receive an annual report on the strategy for the coming year, a mid-year review, and an annual report on the performance of the treasury management function. This is to keep Members informed of the financial performance and associated risks with regard to borrowing and investing funds. Detailed cash flow forecasting ensures a proactive approach, allowing time to consider the most cost effective options when making treasury management decisions.	We have: • Reviewed Treasury Management reports provided to members • We have reviewed compliance in lien with the CIPFA Treasury Management Code • We have held discussions with management to understand the approach adopted • Reviewed cash flow forecasting processes.	The Council has not complied with the requirements of the CIPFA Treasury Management Code. The Audit and Standards Committee recommended the Treasury Management Strategy 2021/22 to Council for approval in February 2021, but the Strategy was not subsequently presented to Council. Members were not provided with a mid-year or annual report on treasury management activity and performance. The Council has not undertaken detailed cash flow monitoring, instead taking a more reactive approach of reviewing the cash balance at the bank each day and borrowing from local authorities for cash flow purposes as required.	Key recommendation - The Council should ensure it complies with the CIPFA Treasury Management Code of Practice and should also undertake detailed cash flow forecasting.

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

Page 64

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)

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The following non-audit services were identified which were charged from the beginning of the financial year to, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

We have made enquiries of component auditors and have confirmed their independence from the Council and Group and that they are not providing any non audit services that would impact on the group independence

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Pooling of Housing Capital receipts	6,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £6,000 in comparison to the total fee for the audit of £68,858 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Housing Benefit Claim	17,250	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £17,250 in comparison to the total fee for the audit of £68,858 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

Appendices

A. Action plan – Audit of Financial Statements

We have identified 9 recommendations for the group as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Page 66

Assessment	Issue and risk	Recommendations
Medium	Review of the Fixed Asset Register identified that management had not updated the value of one asset in line with the valuer's report. This led to a material adjustment of the primary statements and there is a risk that asset values in the balance sheet are materially misstated	Management should ensure that processes in place to ensure consistency in information between Council records and third-party information are sufficiently robust to ensure all required amendments are appropriately processed **Management response** Agreed
Medium	Review of the disclosures for senior management remuneration identified that FTE salaries had been disclosed rather than actual gross salaries as required by the Code. Information was also presented on a person by person basis rather than by role. There is a risk that readers of the accounts will not be able to clearly assess senior officer remuneration in 2021-22.	Management should ensure that remuneration disclosures are completed in line with the requirements of the Code and that actual gross salaries are disclosed. **Management response** Agreed
Medium	Management have incorrectly calculated the value of Council Dwellings as a result of not using the appropriate Beacon value. This has resulted in a material adjustment to the balance sheet	Management should Review all calculations to ensure that material calculations are accurate. **Management response** […]
Medium	Review by management identified that investment income had been incorrectly allocated to net cost of services and not in the surplus or deficit on the provision of services as required by the Code. There is a risk that income will incorrectly allocated within the primary statements and that these will be materially misstated	Management should ensure a timely review of key information is undertaken to ensure that figures included in the primary statements are accurate. **Management response** […]

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Low	The Code requires that where a bank account is in an overdraft position this should be disclosed as a liability on the face of the balance sheet. The Council have a bank overdraft in 2021-22 which is not material but is not disclosed. The cash and cash equivalent note provides clarity on the position and so it is considered that there is no attempt to mislead the reader of the accounts.	Management should ensure that all disclosures are in line with the requirements of the code **Management response** Agreed
Low	Testing identified four errors as a result of lease payment receivable calculations being incorrectly calculated. This is due to incorrect allocation of payments over years and also where changes in payments were noted in the leases, these were not being applied correctly - these errors resulted in the understatement of future payments. One error was noted where the overstated stated asset had resulted in future lease payments being allocated. As the asset was overstated these payments were also overstated and these have netted off against the underpayment.	Management should ensure that all disclosure notes within the statement of accounts are accurately calculated and completed in line with the requirements of the Code **Management response** Agreed
Low	Review of related parties identified two control issues: • Declarations of interest were not received from all officers • Declarations received were not signed by a senior authority as correct and ensure that returns have been completed in full	Management should ensure all returns are completed and reviewed as appropriate **Management response** Agreed
Low	A review of asset lives identified a number of assets that were fully depreciated and still operational. There is a risk that depreciation charges in year are not accurate and that useful economic lives are not appropriate	Management should revisit the useful economic lives assigned to assets and ensure that these are appropriate and that depreciation charges are accurately calculated **Management response** Agreed
Low	Within our work on assets under construction we identified that some assets were not moving into the appropriate class on a timely basis when construction has been completed. Further this had resulted in one asset not being valued in year by the valuer. The asset was valued on the basis of capitalising tarmac costs and not and income basis in line with other car parks.	The Council should ensure that assets are appropriately reclassified on a timely basis to reflect that they have been brought into operation **Management response** Agreed

Page 67

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Follow up of prior year recommendations

We identified the following issues in the audit of Sedgemoor District Council's 2020/21 financial statements, which resulted in 8 recommendations being reported in our 2020/21 Audit Findings report. We are pleased to report that management have implemented all of our recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	Initial review of Council dwellings in November – December 2021 identified that a blanket uplift of 7% had been applied to property valuations. The 7% is the regional uplift for the South West and no consideration had been given to local factors that could impact on the valuation of Council Dwellings within Sedgemoor. There is a risk that properties could be incorrectly valued leading to a material misstatement within the statement of accounts.	Management have employed the services of an external valuer to provide assurance over the valuation of Council dwellings. We have reviewed the approach taken by the valuer and are satisfied that this is in line with expectations and that appropriate indices have been used.
✓	Community Infrastructure Levy (CIL) has been included as a creditor receipt in advance within the draft statements. Testing of this disclosure in line with the Code identified that CIL is received without outstanding conditions and should, therefore, be recognised as income within the CIES. Where it has yet to be applied this should be transferred to useable reserves with the transfer recorded in the movement in reserves statement	We have reviewed the treatment of CIL in the 2021-22 financial statements and are satisfied that these have been accounted for appropriately
✓	Council dwellings are valued on a Beacon Property basis whereby an individual property is used as a proxy for other similar types of property to provide a valuation. Review of all property archetypes against the Beacon Properties identified that insufficient consideration had been given to the groupings. There is, therefore, a risk that the valuation of Council Dwellings is materially misstated.	Management have reviewed the basis on which Beacon Properties have been identified and how other properties have been allocated. This has confirmed that these assumptions are appropriate and that property archetypes are appropriately classified
✓	Testing of Other Land and Buildings and Investment Properties identified a number of assets for which supporting documentation could not be provided and therefore we were unable to support the valuations disclosed within the statement of accounts. This has required a further valuation exercise to be undertaken to provide a more robust valuation of assets within the statement of accounts	We have reviewed the assumptions used by the external valuer and have sample tested a number of items to ensure these have been correctly calculated. Management have provided supporting documentation and we are satisfied that this agrees to the information provide to, and used by the valuer
TBC	The Minimum revenue provision (MRP) includes capital receipts that have been applied to the overall provision. As per the Capital Finance Regulations 2003 the provision should be calculated after the application of capital receipts and not include these. There is a risk that MRP will not be prudent and that the Council will underprovide	Our work in this area is not yet complete for 2021-22. We have not identified any issues in the work completed to date and will update members on completion of this work

Page 68

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	No formal valuers report was provided for Council dwellings in line with the requirement of the code and there is a risk that valuations will not be properly reflected in the financial statements	A formal valuation report has been provided by the External Valuer for all assets valued in 2021-22
X	A review of asset lives identified a number of assets that were fully depreciated and still operational. There is a risk that depreciation charges in year are not accurate and that useful economic lives are not appropriate	Management have not changed their approach to this issue and therefore we have raised the recommendation again in 2021-22
X	Within our work on assets under construction we identified that some assets were not moving into the appropriate class on a timely basis when construction has been completed	Management have not changed their approach to this issue and therefore we have raised the recommendation again in 2021-22

Assessment

✓ Action completed

X Not yet addressed

C. Audit Adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2022.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Revalued asset incorrectly included within the AFR leading to an overstatement of the asset value.	Dr Financing and Investment Income and Expenditure (£2,606)	Cr Investment Assets £2,600 Dr Unusable reserves (£2,600)	(£2,600)
Management have incorrectly calculated the value of Council Dwellings as a result of not using the appropriate Beacon value. This has resulted in a material adjustment to the balance sheet	Cr Surplus or deficit on revaluation of non current assets £7,254	Dr Council Dwellings £7,250 Cr Revaluation reserve (£7,250)	**£7,254**
Review by management identified that investment income had been incorrectly allocated to net cost of services and not in the surplus or deficit on the provision of services as required by the Code. There is a risk that income will incorrectly allocated within the primary statements and that these will be materially misstated	Dr Net cost of services (£1,945) Cr Surplus/deficit on provision of services £1,945		
Overall impact	£4,648	£0	£4,648

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.

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	Auditor recommendations	Adjusted?
Within note 4 management had included a material uncertainty due to covid 19 in relation to Pension Fund housing assets and non operational assets. These disclosures were not included within the valuer's report or the pension fund disclosures and therefore do not impact the 2021-22 financial statements	Management should ensure all assumptions are supported by appropriate documented evidence	✓
Management had included FTE for senior officer remuneration disclosures and had disclosed on a person by person rather than by role. This is not in line with the requirements of the Code.	Management should ensure disclosures are completed in line with the requirements of the Code	✓
Future minimum lease payments have not been calculated in line with the supporting documentation and therefore values have been overstated within the disclosure note	Management should ensure all disclosures are accurately calculated and agreed back to supporting documentation	✓

C. Audit Adjustments

Impact of unadjusted misstatements

There are no unadjusted misstatement in 2021-22

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
Purchase orders incorrectly accrued for at year end	(159)	159	159	Not material
Loan incorrectly recorded as grant received in advance	ST Borrowing 75 LT Borrowing 75	(150)	(150)	Not Material
Under provision of Minimum Revenue Provision (19-20 £194k 20-21 £478k)	672	(672)	672	Not material
Overall impact	£663	(£663)	£663	

D. Fees

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

Audit fees	Proposed fee	Final fee
Council Audit	£68,959	£74,959
Total audit fees (excluding VAT)	£68,959	£74,959

Details of variations in final fees from the proposed fee per the audit plan

- fees per financial statements £42,358
- Additional fees per audit plan awaiting PSAA approval £26,601
- Additional IAS19 work required in relation to the triennial pensions valuation £6,000
- total fees per above £74,959

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services		
Certification of Pooling of Housing Capital receipts	£6,000	£6,000
Certification of Housing Benefit Claim	£17,250	£17,250
Total non-audit fees (excluding VAT)	**£23,250**	**£23,250**

Audit fees – detailed analysis

Scale fee published by PSAA	£45,358
Raising the bar/regulatory factors	£3,125
Enhanced audit procedures for Property, Plant and Equipment	£688
Enhanced audit procedures for Pensions	£688
Additional work on Value for Money (VfM) under new NAO Code	£9,000
Increased audit requirements of revised ISAs 540	£2,100
Additional audit requirements relating to journals and grants testing	£3,000
Remote working	£5,000
Additional IAS19 procedures following the revised triennial pensions valuation	£6,000
Total proposed audit fees 2021/22 (excluding VAT)	*£74,959*

Grant Thornton

grantthornton.co.uk

This page is intentionally left blank

Somerset Council
County Hall, Taunton
Somerset, TA1 4DY

Somerset Council

Grant Thornton UK LLP
2 Glass Wharf
Bristol
BS2 0EL

My reference: SDC/SoA
Your reference:
e-mail: donna.parham@somerset.gov.uk
Tel:

28 September 2023

Dear Sirs

Sedgemoor District 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 Sedgemoor District Council and its subsidiary undertakings, Homes in Sedgemoor Ltd, Sedgemoor Group Ltd and Aspen Housing & Development Ltd for the year ended 31 March 2022 for the purpose of expressing an opinion as to whether the group and 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 2021/22 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 group and 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 group and 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 group and Council 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. Such accounting estimates include valuation of land and buildings, investment properties, council dwellings and the net pension liability. 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 group and Council financial statements:

a. there are no unrecorded liabilities, actual or contingent

b. none of the assets of the group and 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. The financial statements are free of material misstatements, including omissions.

xi. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiii. We have updated our going concern assessment. We continue to believe that the group and 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 group and Council means that, notwithstanding any intention to cease the group and Council 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 group and Council's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the group and Council's ability to continue as a going concern need to be made in the financial statements

xiv. The group and Council has complied with all aspects of ring-fenced grants that could have a material effect on the group and Council's financial statements in the event of non-compliance.

Information Provided

xv. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the group and 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.

xvi. We have communicated to you all deficiencies in internal control of which management is aware.

xvii. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xviii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xix. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and Council, and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xx. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xxi. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxii. We have disclosed to you the identity of the group and Council's related parties and all the related party relationships and transactions of which we are aware.

xxiii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

xxiv. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

xxv. The disclosures within the Narrative Report fairly reflect our understanding of the group and Council's financial and operating performance over the period covered by the financial statements.

Approval

The approval of this letter of representation was minuted by the Somerset Council's Audit Committee at its meeting on 28 September 2023, as successor body for Sedgemoor District Council.

Yours faithfully

Name……………………………

Position………………………….

Date…………………………….

Name……………………………

Position………………………….

Date…………………………….

Signed on behalf of the Council

This page is intentionally left blank

Table of Contents

Introduction to Sedgemoor

Sedgemoor is situated in the South West of England, covering an area of 564 square kilometres. The Bristol Channel forms its northern boundary, the Quantock Hills cover the western part of the district and the Mendip Hills are in the northeast. The M5 motorway passes centrally through the district. It is mainly rural, with 13% of the area designated an Area of Outstanding Natural Beauty and the Moors and Levels being proposed as World Heritage Sites.

The largest settlements are Bridgwater (44,390 population), Burnham-on-Sea/Highbridge (23,950 population), Cheddar (5,530 population) and North Petherton (3,280 population). The area of Sedgemoor covers 54 parishes in total. There are 56,690 households (VOA list 13th September 2021) and the population is 123,446 (mid-year estimate 2020), which rises during the holiday season, with 620,000 staying visitors.

The main Council Office is situated in Bridgwater with an operations depot nearby. The Council employs 425 staff (March 2022) – 62% full-time, 26% part time and 12% casual or temporary, who work with 48 elected members.

The Council currently works in partnership with a number of outside bodies in order to deliver the priorities within the Council's Corporate Strategy; these include Somerset Waste Partnership, Avon and Somerset Police, Somerset Building Control Partnership, Somerset County Council, Homes in Sedgemoor Ltd and all Somerset District Councils.

Introduction from the Section 151 Officer

I am pleased to introduce Sedgemoor District Council's Statement of Accounts for 2021/22. They have been prepared following the Chartered Institute of Public Finance and Accountancy's (CIPFA) code of practice on Local Authority Accounting in the United Kingdom 2021/22. This sets out the principles and practices of accounting required to prepare a Statement of Accounts that gives a true and fair view of the financial position and transactions of the Council. I am the statutory officer responsible for the proper administration of the Council's financial affairs.

The Accounts and Audit Regulations 2015 require local authorities in England to publish a narrative report with the published financial statements. The content of the narrative report should assist in the understanding of the financial statements. It includes comments on the authority's financial performance, financial management and the financial challenges over the financial year and into the medium term. The report is required to give analysis of the development and performance of the authority in the financial year and its position at year end. It will also provide information on both financial and non-financial performance relevant to the authority. It is important that only information that is material in the context of the strategic report is included to ensure key messages are clear and understandable. The Code requires that the narrative report should be fair, balanced, and understandable.

Sedgemoor District Council continues to be an organisation that is customer focused, performance led and delivers good public services, good value for money and effective leadership. This Council continues to use the Corporate Strategy to deliver its priorities through specific programmes. It is committed to continuous improvement in its customer service. Sedgemoor officers are working with the other four Somerset Authorities to deliver the new Unitary by April 2023 and it is essential for Sedgemoor residents that the new Council continues with these priorities to ensure the service is maintained.

The Future of Local Government in Somerset

The Structural Change Order, which came into force on the 18 March 2022, confirmed that Somerset's five councils will be replaced by one single unitary council – Somerset Council. This will provide both county and district services across the existing county area from 1 April 2023 to deliver high quality sustainable local services with effective leadership at both strategic and local levels.

The Government made the decision that elections would be held on 6 May 2022 for Somerset County Council and those elected as County Councillors will take responsibility for all current County Council services for their first year and oversee the local government reorganisation to establish the single unitary Somerset Council on 1 April 2023. The same Councillors will then continue to manage the unitary authority for a four-year term. District councils will remain until 31 March 2023 and the Councillors serving on them will continue in their roles until that date. On that date all the Somerset district councils will be wound up and dissolved and the four existing Somerset districts will be abolished.

To implement the Governments decision on the future of local government in Somerset by 1st April 2023 there is a significant amount of work required to firstly ensure the new council is safe and legal but also to create a council that continues to provide excellent services to its customers. As part of the business case submitted for a single unitary the ongoing savings to be delivered were £18.5 million with an implementation budget of £16 million. It was agreed that the implementation costs would be split based on an agreed methodology between all five councils and this has been built into the Sedgemoor budget. In addition a specific Sedgemoor LGR budget has been included to ensure there are resources in place to deliver the new council and also ensure there is capacity to continue to deliver business as usual activities. Staff resources are in the main from existing officers as its key to ensuring Sedgemoor residents are represented when discussions are taking place as too how the new council and its services will be delivered.

The Accounts

The following statements have been prepared to give taxpayers, members of the council, employees, partners and other interested parties clear information about the finances of this Council. The accounts as presented reflect Sedgemoor District Council's financial position for the year ended 31st March 2022. The accounting policies are detailed in notes to the accounts and have been fairly and consistently applied. All appropriate steps have been taken to protect and prevent the Council from fraud and other irregularities.

The main financial statements are divided into 'core' and 'supplementary' statements.

Core Financial Statements

The Movement in Reserves Statement shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'.
The Comprehensive Income and Expenditure Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation or rents.
The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority.
The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing or financing activities.

Supplementary Financial Statements

The Housing Revenue Account (HRA) is a record of revenue expenditure and income relating to an authority's housing stock. Its primary purpose is to ensure that expenditure on managing tenancies and maintaining dwellings is balanced by rents charged to tenants. Consequently, the HRA is a statutory account, ringfenced from the rest of the General Fund, so that rents cannot be subsidised from council tax (or vice versa).

The Collection Fund statement is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from council taxpayers and non-domestic rate payers along with the distribution to local authorities and the Government.

Group accounts - The Council is required to consolidate into its own accounts (as a single entity) the financial activities of outside organisations such as subsidiaries, joint ventures and associates. The subsidiary companies Homes in Sedgemoor Ltd, Sedgemoor Group Ltd and Aspen Housing & Development Ltd have been consolidated into the group accounts.

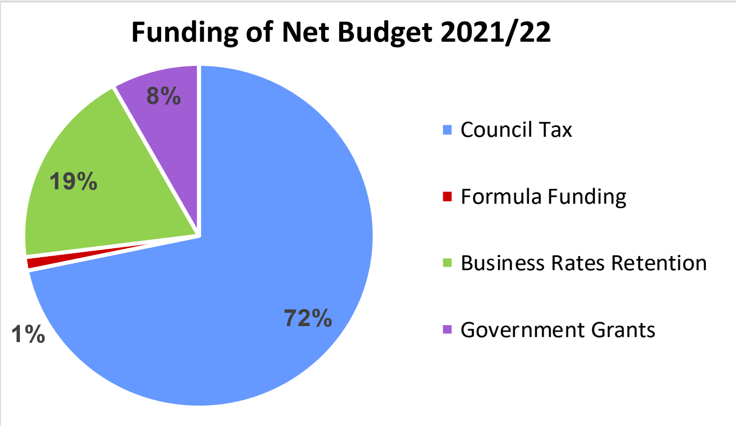
Financial Performance

General Fund Revenue

The financial sustainability of the Council is robust with healthy balances to manage delivery of the medium term strategy and sound financial management. These accounts include the resources that have been generated and spent in delivering day to day services during the year. It is important to note that the figures reported include the financial impact of the Covid 19 Pandemic. This section of the narrative report will illustrate the Councils financial performance, how the general fund income and expenditure is split and compares actual spend to budget and explains the variance.

The Council's actual funding for 2021/22 was £13.6m, representing the net cost of General Fund services funded by grants, business rates and council tax as shown in the following table and graph. This income is higher than, last year due to the new business rate reliefs for nursery's and retail businesses which the council has received government funding.

	£'000
Council Tax	9,748
Formula Funding	173
Business Rates Retention	2,561
Government Grants	1,107
Total	**13,589**



Revenue Expenditure

The Council raises money from the sources detailed in the Chart above and spends it on a wide range of services in the local community including:

- Housing
- Car Parks & Street Lighting
- CCTV & Crime Reduction
- Housing Benefits
- Leisure & Recreation
- Local Taxation & Collection costs

- Commercial Properties
- Community Services & Grants
- Economic Development
- Environmental & Public Health
- Homelessness and Housing Strategy
- Parks and Closed Churchyards
- Planning
- Local Development Framework
- Building Control
- Refuse & Recycling

Budgets compared with actuals

The table shows a comparison between budget and actual General Fund income and expenditure (underspends are in brackets.) The figures in this table exclude amounts that are reversed out in the Movement in reserves.

Actual Spend 2020/21 £'000 Restated		Original Budget 2021/22 £'000	Revised Budget 2021/22 at 31st March £'000	Actual Spend 2021/22 £'000	Variation £'000
1,055	Chief Executive	642	1,107	863	(244)
450	Customer Services	247	701	888	187
5,262	Environment & Regulation	6,331	6,685	6,259	(426)
1,385	Finance & Property	532	906	709	(197)
2,890	Housing Health and Wellbeing	3,215	3,639	2,920	(719)
1,699	Inward Investment & Growth	2,215	2,161	1,525	(636)
2,745	Legal & Governance	2,800	2,808	2,839	31
1,619	Drainage Board Levies	1,674	1,674	1,674	0
(1,099)	Central Support	(8)	(3)	(1,327)	(1,324)
16,006	**TOTAL**	**17,648**	**19,678**	**16,350**	**(3,328)**
2,635	Parish Precepts	2,916	2,916	2,916	0
(2,190)	Trading Accounts/Investment Properties	(2,890)	(3,138)	(3,088)	50
(1,667)	Net Interest Receivable and similar	(844)	(675)	(1,605)	(930)
14,784	**Net Operating Expenditure per the Income and Expenditure Account**	**16,830**	**18,781**	**14,573**	**(4,208)**
(9,731)	Council Tax	(9,748)	(9,748)	(9,748)	0
(3,573)	Formula Funding	(3,725)	(3,725)	(3,725)	0
(14,465)	Business Rates Retention	4,063	261	991	730
(2,140)	Government Grants	(1,063)	(1,107)	(1,107)	0
(15,125)	**Deficit/(surplus) for the year on the Income & Expenditure Statement**	**6,357**	**4,462**	**984**	**(3,478)**
11,642	Transfer to/(from) earmarked reserves	(6,675)	(6,755)	(4,519)	2,236
1,738	Transfer to/(from) earmarked reserves - MTFP	(1,577)	(985)	386	1,371
1,745	Direct Revenue Funding, Minimum Revenue Provision, Premiums & Discounts	1,895	3,278	3,149	(129)
0	**Transfer (to)/from balances**	**0**	**0**	**0**	**0**
(1,500)	**Opening Balances**	**(1,500)**	**(1,500)**	**(1,500)**	**(1,500)**
0	Transfer (to)/from balances	0	0	0	**0**
(1,500)	**Closing Balances**	**(1,500)**	**(1,500)**	**(1,500)**	**(1,500)**

The outturn for the General Fund is a transfer to general balances of £0.4m, an increase of £1.4m compared to the revised budget. The main reason for the variation is increased income exceeding the budget not underspends on expenditure. The income exceeding budget was from Planning fees, Service Level Agreements (SLA's), clean surroundings external work and Bad Debt Provisions released. This figure is before any carry forwards and is therefore reduced by £0.6m being the carry forward requests approved by members of the Executive in July 2022.

Further information on spending on services and income is shown within the Comprehensive Income and Expenditure Statement and associated Notes.

This Council has had a managed use of balances approach to balancing the budget since 2012. This means that apart from the risk assessed minimum balance of £1.5 million in the general fund reserve the remaining balances are allocated to delivering a balanced medium-term budget. They are in place to manage the delivery of key invest to save projects such as the customer access programme and commercial property investments, ensuring they are given the time to be delivered effectively with the increased income and reductions being realistic and achievable in the time scale set.

The MTFP was developed in the knowledge that the single unitary for Somerset will be in place from April 2023 and as such the period of the MTFP was reduced from five years to three. The period of the SDC MTFP goes beyond vesting day (April 2023) and details the estimated financial position for Sedgemoor District Council if it were to remain a separate organisation. The SDC MTFP figures were used along with the other 4 Councils projections in the February report to give an initial funding gap for the New Council for 2023/24 of £28 million. These figures are now being updated with current inflation levels which are significantly higher, increased pay award and income projections based on one Council. The process is currently being developed for all districts and Somerset County Council figures to be amalgamated into a single budget for the new Council from 2023/24 but the initial funding gap is estimated at £44.5 million. In addition to delivering a balanced budget for the new Council the single unitary business case also presented £18.5 million of savings which need to be delivered in the first two years of the new council, this will assist in closing the funding gap. The 2023/24 budget is going to be challenging due to the significant funding gap predictions, the new political leadership and the impact of LGR on resources and capacity.

An allocated reserve as detailed above was set up to ensure that these reserves are in place for the delivery of the medium term budget as planned within the MTFP and Tax Set reports. The year-end balance for the allocated reserve is £9.1m before the adjustment for carry forwards, with the General Fund reserves at £1.5m. The impact on the managed use of balances strategy is an increase in opening balances of approximately £0.7m. This reserve fund is detailed in note 11.

The Council also carries specific reserves which represent funds that have been set aside to support specific spending in future years. The General Fund Earmarked Reserves balance at 31st March 2022 (excluding the MUOB reserve detailed above) is £17.9m. This balance covers a wide variety of known planned spending commitments, including replacement of information technology and Swimming Pool maintenance.

Housing Revenue Account (HRA)

The Council's housing stock currently stands at 4,030 dwellings. From the 1st April 2007 the stock has been managed by Homes in Sedgemoor Ltd (HIS), an Arm's Length Management Organisation (ALMO) owned wholly by the District Council. The rental and service charge income and various other functions are part of the retained HRA. All other services are accounted for as part of HIS, which are consolidated into the Council's accounts as part of the group accounts. In 2015/16 the authority started to embark on the provision of new social housing mainly by way of the purchase of existing properties and in 2016/17 commenced a new build programme which in the first year delivered 18 new homes. The development programme then continued each year thereafter. In 2019/20 there was a net increase in the housing stock meaning stock additions were more than the stock lost through Right to Buy and this happened again in 2020/21. Whilst the increase was marginal at a net increase of five properties over two years this is a milestone achievement for Sedgemoor District Council. However in 2021/22 the RTB demand picked up with dwelling sales being more than the new housing supply resulting in a net loss of 13 properties that year. The plans are to continue the development of new social housing which helps to mitigate the stock lost through the Right to Buy (RTB) providing essential social housing homes in a time when issues with homelessness are increasing.

Revenue Expenditure

The HRA only covers the costs and income related to provision of Council-owned accommodation. The Local Government Act 1989 requires that this expenditure is ring-fenced and cannot be subsidised by the General Fund. The HRA covers revenue expenditure on repairs and maintenance and the housing supervision and management service. Both of these functions are carried out by the ALMO and funded by the management fee. In 2021/22 this totalled £8.1m. Part of the housing capital programme is funded by revenue, with this sum varying from year to year depending on the programme demands and revenue balances.

Revenue Income

The main source of income for the HRA is from rents (both dwelling and non-dwelling) and service charges, accounting for 94% of the total income in 2021/22. Dwelling rents are calculated annually. From April 2015 the Government changed the rent increase to CPI plus 1%, then a further Government change to rents in 2016/17 introduced a four year progressive rent reduction of 1% per annum. In October 2017 the MHCLG issued a statement confirming that social housing rents will be limited to an increase of CPI plus 1% for five years from 2020 and this was applied to the 2020/21 and 2021/22 rents. However, there is no commitment to rent levels after this period so the situation will need to be kept under review. A final point on dwelling rent income is that the authority now has around 130 new units of council owned social housing. This is a mixture of new build units and the purchase of former council housing previously sold through the RTB. This goes some way to replacing the units lost though RTB. The closing housing stock stood at 4,031 homes with the opening stock 4,044, a net loss of 13 homes due to RTB being more than the development programme. The new housing has rents calculated using affordable rent models. This is because the new build housing rents are not constrained in the same way as social rents. Further stock development plans are under consideration at this stage with more new build planned for 2022/23 and onwards.

Service charges are levied according to the various services specific to each property and follow Government rent policy and amount to 7% of total income. The main items of non-dwelling rents are charges for block garages and estate shops.

Budgets compared with actuals

The table shows a comparison between budgets and actual for HRA income and expenditure (under spends are in brackets). The figures in this table exclude amounts that are reversed out in the Movement in reserves.

Actual Spend 2020/21 £'000		Original Budget 2021/22 £'000	Revised Budget 2021/22 at 31st March £'000	Actual Spend 2021/22 £'000	Variation £'000
3,559	Repairs & Maintenance	3,603	3,939	3,887	(52)
5,221	Supervision & Management	5,581	5,847	5,612	(235)
130	Other Expenditure	217	410	394	(16)
8,910	**Total Expenditure**	**9,401**	**10,196**	**9,893**	**(303)**
(17,763)	Rents & Service Charges	(17,899)	(18,325)	(18,381)	(56)
(498)	Other Income	(427)	(1,217)	(1,254)	(37)
(18,261)	**Total Income**	**(18,326)**	**(19,542)**	**(19,635)**	**(93)**
(9,351)	**NET COST OF HRA SERVICES**	**(8,925)**	**(9,346)**	**(9,742)**	**(396)**
295	Corporate & Democratic Core	282	205	193	(12)
1,143	Interest payable and similar charges	1,546	1,379	1,535	156
(7,913)	**(SURPLUS)/DEFICIT FOR THE YEAR ON HRA SERVICES**	**(7,097)**	**(7,762)**	**(8,014)**	**(252)**
9,947	Movement in Reserves - Items transferred to/(from) balance sheet	10,912	10,111	10,186	75
2,034	**Transfer (to)/from balances**	**3,815**	**2,349**	**2,223**	**(126)**
(13,606)	**Opening Balances**	**(6,112)**	**(11,572)**	**(11,572)**	0
2,034	Transfer (to)/from balances	3,815	2,349	2,223	(126)
(11,572)	**Closing Balances**	**(2,297)**	**(9,223)**	**(9,349)**	**(126)**

To summarise, the account has a reduced deficit for the year at £2.223m compared against the deficit budget prediction of £2.349m, a positive difference of £0.126m.

This can be accounted for mainly by the fact that there are a couple of revenue budget under spends requested as budget carry forwards, as detailed below. Variances across the board make up the balance which is not material.

There is also a revenue budget carry forward for £238,000 for the early stock development work and £30,000 for fire risk assessment works at the HRA shops delayed due to supply chain issues.

HRA capital budget carry forward requests total £1.8m, however these will not impact on revenue balances. Of this £0.9m is for delays on stock development due to contractor and supply chain issues; £0.4m for the HiS sheltered works again because of contractor and supply chain issues and £0.4m for estate sewerage works at Crickham delayed because of contract complexities and the tender process.

Whilst the balances of the HRA are healthy these should be considered in the context of the 30 year HRA business plan which takes into account stock investment requirements and provision for repayment of long term debt, as well as other risks that need to be managed as detailed in the plan.

Balance Sheet Summary

As at the 31st March 2022, the Authority's net assets amounted to £146 million as shown in the summary. The total reserves of the authority are split into usable and unusable. The table compares the figures with the position last year.

31-Mar-21 £'m		31-Mar-22 £'m
311	Long Term Assets	350
(51)	Net Current Liabilities - Debtors, Stock and Cash less short term creditors	(50)
(156)	Long Term Liabilities and provisions	(154)
104	**Net Assets**	**146**
53	Usable Reserves	50
51	Unusable Reserves	96
104	**Total Reserves**	**146**

Capital Account Summary

In addition to the revenue accounts which cover day to day income and expenditure the Council also has a capital programme. This summary shows the income and expenditure on capital projects for both the General Fund and Housing Revenue Account. This section will compare the actual expenditure against the budget for the capital programme. The capital programme was revised during the year to take account of the year end position for 2021/22. The revised budget for the General Fund was £17.6m compared to a capital spend for the year of £14.3m. The HRA revised budget was £17.1m compared to a capital spend for the year of £14.8m.

Funding Capital Expenditure and Budgets compared with Actuals

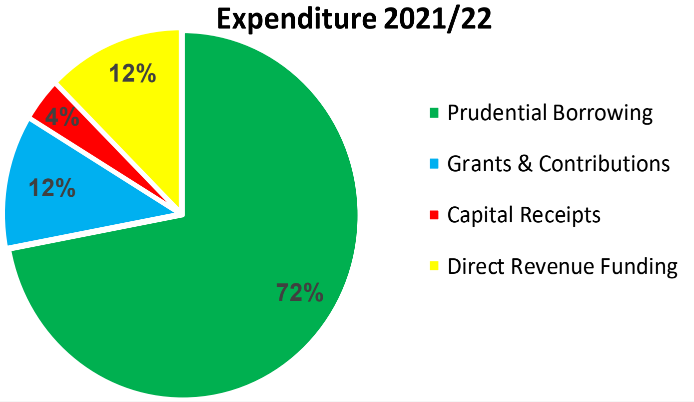
There are various mechanisms for funding the capital programme. Capital receipts are used where available and the authority has been actively seeking to release surplus assets. Sedgemoor has also had a successful record in attracting external funding into the district to fund capital projects. To support the capital programme the Council has approved borrowing, which has an impact on the revenue budget. The HRA uses funding from the Major Repairs Allowance and capital receipts where available, but also relies on direct revenue funding. In 2021/22 the HRA also attracted some grant funding.

The following tables and graphs provide a summary of General Fund and Housing Revenue Account capital expenditure based on the Council's key priorities of Customers and Efficiency, Housing, Communities & Wellbeing and Growth and Infrastructure. It compares the current year's revised budget with the actual spend (figures in brackets are underspends).

General Fund Capital

	£'000
Prudential Borrowing	10,275
Grants & Contributions	1,663
Capital Receipts	538
Direct Revenue Funding	1,790
Total	**14,266**

General Fund, Actual Financing of Capital Expenditure 2021/22

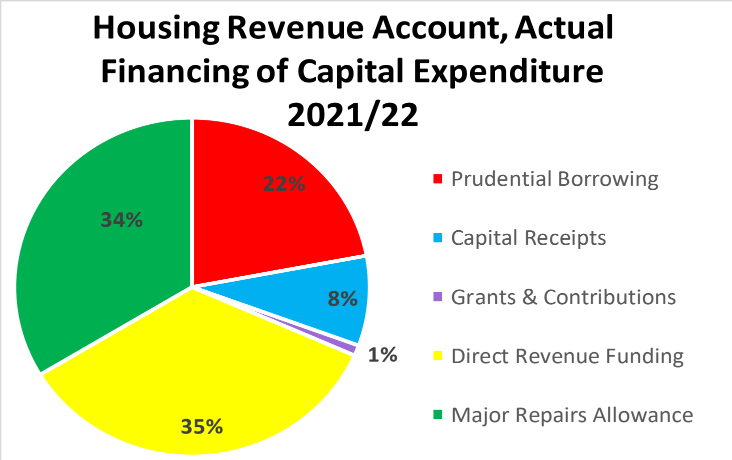


General Fund Corporate Priority	Original Budget 2021/22 £'000	Revised Budget 2021/22 at 31st March £'000	Actual Spend 2021/22 £'000	Variation £'000	Note
Customers and efficiency					
Asset management - Burnham TIC toilets	0	0	58	58	
Asset management repairs & improvements	500	86	86	0	
Bays pond replacement sluice gates	70	70	0	(70)	1
Berrow beach car park	0	40	40	0	
Brean beach kiosk	0	10	0	(10)	1
Brean beach RNLI grant	0	30	0	(30)	1
Bridgwater House & Colley Lane refurbishment	620	680	635	(45)	1
CAP accommodation	300	341	335	(6)	
CAP firmstep CRM software	0	2	0	(2)	
CAP new revenues and benefits system	260	364	46	(318)	
Car park resurfacing	87	47	46	(1)	
CCTV digitisation	0	35	21	(14)	1
CCTV video management system	0	130	130	0	
Colley Lane disaster recovery room	0	60	28	(32)	
Convert street lighting to LED	51	51	22	(29)	1
IT firewall renewal	0	0	52	52	
IT laptop renewal	0	460	390	(70)	
IT server remewal	0	300	242	(58)	
New recycling containers	279	0	0	0	
Northgate Yard regenertion project	15,173	10,035	9,271	(764)	1
Vehicle replacement	151	322	158	(164)	1
Capital loans	0	596	596	0	
Housing, communities & wellbeing					
Grants - village halls	0	55	17	(38)	1
Housing enabling	0	1,695	395	(1,300)	1
Housing enabling via S106	0	850	850	0	
Housing thermal works grants LADS1	0	823	182	(641)	1
Iselport capital grant	0	375	350	(25)	1
Parks - grant (Esplanade site)	0	50	0	(50)	1
Play area equipment	50	50	50	0	
Wembdon village hall grnat	0	0	355	355	
	17,541	**17,557**	**14,355**	**(3,202)**	

Note 1 Budget carry forwards requested because of project slippage

Housing Revenue Account Capital

	£'000
Prudential Borrowing	3,281
Capital Receipts	1,280
Grants & Contributions	150
Direct Revenue Funding	5,171
Major Repairs Allowance	5,015
Total	**14,897**



Housing Revenue Account	Original Budget 2021/22 £'000	Revised Budget 2021/22 at 31st March £'000	Actual Spend 2021/22 £'000	Variation £'000	Note
New council housing					
New dwellings	10,899	5,455	4,582	(873)	1
Existing housing stock					
Capital works managed by HiS	10,121	10,333	9,884	(449)	1
Disabled adaptations	388	388	303	(85)	2
Housing thermal works grants LADS1a	0	63	68	5	
Bespoke homes	0	112	0	(112)	1
Shared ownership	0	0	2	2	
Other housing					
Sewerage scheme upgrades	750	749	58	(691)	3
	22,158	**17,100**	**14,897**	**(2,203)**	

Note 1 Budget carry forward required due to project slippage

Note 2 Budget under spends, budget carry forwards not required.

Note 3 Only partial budget carry forward requested

Financial Challenges

Sedgemoor continues to deliver a balanced budget whilst maintaining high performing services. The 2021/22 financial year has again been challenging with the continued impact of the Covid 19 Pandemic, Brexit and uncertainty with the Governments new funding regime.

The current funding regime of Business Rates Retention has had a positive impact for Sedgemoor because under this system Councils gain from growth within their district and with Sedgemoor being a pro-business authority this has had a real financial gain for this Council. For 2021/22 Sedgemoor has continued to be part of the Somerset pool which ensures that the financial rewards for business growth is retained in Somerset. Sedgemoor continued to perform well even in a very difficult year for businesses and the economy, with its positive approach to business growth being translated into increased income through business rates to support Council services.

Sedgemoor has also continued to maximise income from the New Homes Bonus (NHB) with its commitment to the growth and development agenda as well as implementing initiatives to maximise the tax base such as empty homes and mobile homes reviews. Since NHB was introduced by the Government in 2011/12 this Council has received approximately £24 million. Covid 19 did have an immediate impact on house building and will continue to have a longer-term impact on the tax base which will reduce the estimated income from Council Tax in future years. However, the Council still managed to gain additional income through NHB which is positive particularly in the current circumstances. The future of NHB is part of the Local government funding review so its future is uncertain.

The decision from the Secretary of State to create a Unitary Authority from 1st April 2023, meant that Sedgemoor delivered its final MTFP report in November 2021. Sedgemoor is in a good financial position which has been supported by the recent Grant Thornton Value for money review with no significant weaknesses identified with regard to Sedgemoor District Councils financial sustainability over the medium term. There will be substantial specific reserves in place to pass on to the new authority which will at least assist in the short term with balancing the new Councils budget.

The financial situation for the HRA is now optimistic with healthy balances, borrowing budgeted to be paid off with the 30 year plan and funding for new development projects in addition to the funding to maintain decent homes standard for existing stock. The four year rent reduction had a significant impact on the viability of the business plan but with the rent formula allowing increases and the borrowing cap removed the 30 year position is positive and longer term provides scope for further initiatives to be considered.

The plan is already supporting the Councils ambition to increase the number of properties as there is a high demand for affordable housing. Clearly with the borrowing cap being removed there is more scope to borrow, however the business case must prove that the additional borrowing is affordable and both the interest and principle needs to be included in the plan to avoid debt within the HRA. The significant increase in inflation and the potential cap on rent increases as this is linked to inflation levels may have an adverse impact on the business plan but this is not clear at this stage.

Due to the formation of the new authority on 1st April 2023, work has now started on bringing together the two Housing Revenue Accounts that are currently held by Sedgemoor and Somerset West & Taunton. The requirement is to present a single HRA for vesting day.

How the Council has performed in 2021/22

Sedgemoor is a customer-focused and performance-led Council that strives to maintain high standards for its customers. Our performance is monitored closely through the Council's Corporate Dashboard which is reported quarterly to Operational Management Team and the Executive Committee. The table of performance indicators below has been taken from the Corporate Dashboard and are key indicators for this Council. It has been a challenging year with all officers working from home and immediately having to adapt processes to the new way of remote working. As demonstrated by the key performance indicators despite the additional demands the performance has remained high, with the exception of indicator SSP1 where the processes have been difficult working remotely, an action plan is already in place to address these issues and improve performance.

Key Performance Indicators

Status	Code	Performance Indicator	2021/22 Result	Target
	SSFP1	Pay all undisputed invoices within 30 days of receipt	91.40%	100%
	SSFP3	Process payments the customer makes, with a valid reference, through your bank account, giro payment or on-line payments through our website within one working day onto the relevant service system	100%	100%
	SSCS2	Resolve 65% of calls at first point of contact	74.50%	65%
	SSBE1	Decide new benefit claims within an average of 10 days, or tell you the reasons for any delays	7.58	10
	SSP1	Register valid planning application within 5 working days	64.54%	75%
	SSP3a	Processing of planning applications: Major Applications within 13 weeks	94.44%	65%
	SSP3b	Processing of planning applications: Minor applications within 8 weeks	92.55%	75%
	SSEH3	Respond to all Environmental Health Service requests within 7 working days	96.80%	90%
	SSHR2	Monitor the number of days training that staff undertake (training days per employee) [corporate training]	0.89	-
	SSHR3	Monitor the number of voluntary leavers from the council (% voluntary leavers)	6.27%	-

Key:

	On target
	Slightly off target (<10%)
	Significantly off target (>10%)
	For information only – no target set

What has the Council achieved in 2021/22

Sedgemoor District Council's Corporate Strategy has three priority themes, **Customers & Efficiency**, **Growth & Infrastructure**, and **Housing Health & Wellbeing**. Sedgemoor remains committed to addressing the economic challenges that face the residents and businesses in the district, and is a performance led organisation that delivers good public services, good value for money and effective leadership. This section details some of the achievements for the year in terms of what the Council delivered for its taxpayers.

Customers & Efficiency

- Since April 2020, we have distributed almost 10,000 covid-19 grants totalling almost £70 million.

- The Council assisted over 1,500 people with their new benefit claims and administered over 29,000 changes of circumstance. New claims were processed in an average of 10 days and changes of circumstance in 5 days. This was achieved with the continued increase in workload due to Covid-19 and the additional duties given to benefit departments, including continued administering of the Test and Trace payments.

- Sedgemoor's average Band 'D' Council Tax for 2021/22 of £172.32 ranks 46th amongst all 181 districts nationwide. This figure includes drainage board levies which is approximately £40.85 per band D property.

- Sedgemoor has continued with its commitment to the apprenticeship programme and invested approximately £1.3m in growing its own workforce over the period that this programme has been in place.
- Community groups and individuals across the district benefited from over £50,000 of grant funding, thanks to awards given out by Sedgemoor District Council.

- During 2021/22 we received over 110,000 calls via Sedgemoor Digital, the Council's customer contact centre, over 74% of which were resolved at the first point of contact.

Housing, Health & Wellbeing

- The council provided carbon literacy training for all staff and Members.

- A total of 635 trees were planted across the District in 2021/22 as Town and Parish Councils requested free trees as part of the Council's Tree Fund.

- Sedgemoor entered into a partnership with Somerset West and Taunton Council, pooling resource to deliver on our ambitions with the climate strategy.

- The Department for Levelling Up, Housing & Communities awarded the Council Better Care Funding of £1,092,482. This will enable the Council to continue to provide essential disabled adaptations to people's homes to enable our most vulnerable in society to remain independent.
- Sedgemoor delivered 80 major adaptations which took on average 16 weeks to complete. Spending £80k on low level prevention grants.

- Sedgemoor was awarded £518,700 from BEIS for a LADS 1A bid, £809,500 from BEIS for LADS 1B and £1.5 million for the Home Upgrade Grant (HUG's) to retrofit social housing and owner-occupied housing with essential energy measures such as solid wall insulation and air source heat pumps. The bids will assist a total of 500 households to reduce their fuel bills, make their homes more energy efficient and reduce the risk of fuel poverty. There was also a further bid awarded to Sedgemoor of £1.3million from the Warm Homes Fund to assist with first time gas central heating and provide energy advice across Somerset which assisted over 5,000 households.

- Building affordable homes continues to be a key priority for the authority. We continue to support and sustain the supply of partner delivered affordable housing growth with our affordable housing providers and the wider housing supply chain. After a 35-year period of inactivity, the authority began building a new generation of council homes in 2017. The authority has an active programme – with an investment of circa £28m. This investment will see (which when built) a further 144 new council homes built. We are working the next phase of council builds, with an estimated investment of £31m associated with circa further 170 additional new homes.

- The authority has overseen the delivery of 450+ additional affordable homes since April 2019, exceeding its desired targets for this period. We expect to see a bumper year of affordable housing delivery of 250+ additional affordable homes in the final twelve months (to March 2023) of our four-year affordable housing development cycle – meaning the authority will have significantly exceeded its targets, despite the challenges such as the covid pandemic and inflationary housing supply chain pressures.

- We continue to support the delivery of genuinely affordable homes in our expensive to live rural communities. We continue to provide operational and financial support to a number of rural projects and have committed £485,174 towards rural projects since 2017, principally revenue funds to help us bring forward new housing in partnership with our communities. We have worked (or are actively working) with 10 community groups, from which we anticipate this investment will result in circa 154 new homes.

- The authority has secured £2.5m funds from the EDFe Housing Mitigation Fund, which is supporting the delivery of a £35m portfolio of 236 new homes (824 bedspace) across eleven brownfield sites. Seven projects have been completed, with strong progress made on the final three initiatives at All Saint Terrace (on-site), Bigwood (contracts approved and start on site imminent) and Mount Street (planning approval now secured). We have added a new project in Nether Stowey during 2021-2022.

- The Together Team partnership operating across the areas of East Bridgwater, South Bridgwater and Highbridge and Burnham together with our partners have dealt with 350+ cases over the last year. Helping partners work together to take actions and support residents across the district.

- SDC Community Safety team in partnership with our communities have delivered 3 Pantry's across Sedgemoor in Sydenham, Hamp and Highbridge. Pantry's are community-run projects that buy or collect surplus food to prevent it going to waste, and then make it available to local residents for a weekly fee of £3.50. As the food is 'surplus', due to a seasonal glut or change in branding for example, the Local Pantry does not choose or know what it will be offered, so members will have a 'mystery parcel' each week. There are normally 10-15 items, made up of fresh, chilled and ambient (tinned/dried) foods. The value of the food also varies but it always exceeds the cost. The 3 Pantry's currently provide 150 memberships across Sedgemoor.

- The Community Safety Team with the Economic Development Team have been successful in applying for £1Million from the Town Deal to fund new Town Wardens/Ambassadors for Bridgwater for 4 years. There will be an initial 4 full time officers in year 1 but an additional 2 part time officers in years 2, 3 and 4. Recruitment expected to start July 2022.

- The Housing Team have been successful with a bid to DLUHC and were awarded funding to continue with the work to reduce rough sleeping in Sedgemoor.

- Between 1 January and 31 May 2022 Sedgemoor's Housing Team has prevented 111 households from becoming homeless and 281 households have been relieved of being homeless.

- Supported over 4,500 people across Somerset, helping residents remain independent in their own home, secure in the knowledge that help is at hand if they need it. In 2021/22 Sedgemoor Lifeline handled over 96,000 calls from vulnerable customers with an emergency alarm. The emergency response service attended 744 non-injured fallers, with 100% attended to within 60 minutes.

Growth & Infrastructure

- Sedgemoor District Council is a pro-business, pro-growth authority with a strong economic focus. We have a strong track-record on economic growth and delivery within the District, with the fastest growing household income and the highest GVA per job across the Heart of the South West LEP area.

- Covid-19 Response and Recovery

  On the back of the Covid-19 crisis the Council created a new initiative – the Town Centres Taskforce which brings together business and town representatives from across the district to support the high streets and town/village centres.

  The Council has delivered a number of interventions via the Reopening of the High Street Safely fund, including safety signage, footfall counters and PR campaigns. The Council supported parish and town councils by improving some of the facilities aimed at tourists. The fund also allowed the Council to develop several strategies that will enable medium term sustainability across a number of locations.

  The Council has supported businesses in safe trading and reopening by providing the guidance and information.

- Despite Covid-19 having a significant impact on projects over the last two years, a large number of projects, including infrastructure and development, are in progress:

  Gravity – A 616-acre site, Smart Campus which will create in the region of 7,500 new jobs and around 4 million square feet of commercial space. The Enterprise Zone status enables the Council to retain and reinvest business rates income from the site into the local economy. Following the agreement from Council in December 2020 The Gravity Local Development Order was formally adopted in February. The LDO secures a flexible and agile planning process to assist delivery and attract investment. Gravity formed part of a wider West of England Combined Authority's successful bid to DCMS to deliver 5G Logistics project. Governance arrangements and mechanisms to support the delivery of planning and funding strategies of the Enterprise Zone were recently approved by the Executive on 6th July and will be reported to Council on 20th July. Substantive occupier interest continues to progress with SCC, SDC, This is Gravity and the LEP engaged with UK Government.

  The Northgate leisure development is a £16m Council financed scheme and being marketed as Northgate Yard. The development will deliver a new 7 screen cinema for Scott Cinema and 8 lane bowling alley for AllStars Bowling with 4 food and beverage units available to operators together with a high quality play area and landscaped park known as Brewery Field. The scheme is due to open in October 2022. Landscaping in Brewery Field includes a large number of semimature trees, grassland and wildflower areas and an urban wetland pond and swale system which has been developed in conjunction with the Wildfowl and Wetland Trust.

  The Transport and Works Act Order for the Bridgwater Tidal Barrier was granted in January 2022, this is a significant milestone for the scheme. Work is now progressing on the detailed design stage for this complex project. In parallel various site assessments have been undertaken including extensive archaeological investigations. The intention is to deliver some of the early works for the barrier including the western access track that will provide access to the Chilton Trinity side of the river for future barrier construction. Similarly, the control building to be located on Express Park is also being designed and it is anticipated that this will be constructed in 2023/24. Construction on the main barrier is likely to start in 2024.

  As part of the wider environmental benefits and opportunities of the project, the Environment Agency and Council are working with the Wildfowl and Wetlands Trust (WWT) on initiatives to create new or improved urban wetlands that benefit biodiversity, education and health and wellbeing. Early projects are already delivering real benefits at the Meads Park in Bridgwater and new sustainable urban drainage system on the brewery Field that includes new wetlands with extensive planting. Other projects will focus on projects in and around the barrier and downstream banks.

June 21 provided confirmation from Government that Bridgwater had been allocated £23.2m of Town Deal funding across the 11 projects contained within the Bridgwater Town Investment Plan.

Since the announcement of the allocation SDC and partners have been developing the final business cases which are sent off to Government for final sign off which enables the drawdown of funding for the individual projects. To date the following projects have been submitted to Government and have been signed off (although we are still waiting for official confirmation): -

- Dunball Junction improvements (a contribution to the total cost of the scheme)
- Bridgwater Tidal Barrier (a contribution to the total cost of the scheme)
- Town Wardens

In total those 3 projects will enable the drawdown of £3.4m pounds worth of investment into the town.

The next 2 projects in the process are Celebration Mile which was submitted to Government in June and Step-Up which is expected to be submitted to Government by the end of July.

Business cases for the remaining projects are in development and are expected to be submitted by the end of the year.

Included within the Town Deal as outlined above is the Celebration Mile. Outside of the Town Deal process significant design and feasibility work continues ahead of the drawdown of capital funding with all 3 of the schemes (Eastover, Clare Street and Angel Crescent) that make up the Celebration Mile element of the Town Deal having progressed to Riba stage 3 in the over the past year.

Regeneration working groups for Highbridge and Cheddar have continued to meet over the previous 12 months. The work carried out through these working groups has formed part of the production of a £20m Levelling Up Fund bid covering a large swath of the Wells Constituency which is expected to be submitted to Government in the next month. If successful, this will provide significant capital investment into Highbridge and Cheddar and parts of the Levels and Moors across the District.

A second Levelling Up Fund bid is being finalised that will repurpose the former Bridgwater Hospital in the centre of the town creating an Academy for Health and Social Care Training. This will provide resources to a sector that is significantly under resourced whilst bringing back in to use a significant grade 2 listed building. The value of this bid is also £20m and is expected to be submitted to Government in the next month.

- Employment and Skills

Under Construction, in partnership with Somerset West and Taunton, supported Suez with their recruitment and Somerset NHS Trust to raise awareness of their training programme to lead into NHS careers and the Covid Vaccination roll out.

Virtual events with Hinkley Point C Jobs Service and associated contractors continued supporting Bylor with Geo-spatial Apprentices, Somerset Larder, MEH contractors and Somerset Passenger solutions. These virtual events had 581 registrations. The team also made links and attended events with Sedgemoor Pantries and Family Support around the School teams.

In March 22 a Recruitment Fair was delivered within Angel Place Shopping Centre to raise awareness of the current jobs available in the local area and 30 employers attended.

Over the course of the year virtual footfall through Under Construction was 1392 people with actual footfall at 1149. The team provided 8882 Information Advice and Guidance sessions across various platforms, delivered 220 events, supported 150 people back into work and advertised over two thousand jobs.

100 Women First (second iteration of the project): Year 1 of a 3-year delivery programme was forced to deliver online with much of the activity taken place via social media. That said 120 women have been recruited as of June 22. Demand continues to be high and Under Construction continues to support all the women into the 'career of choice'.

Men4Sedgemoor: Funded from the Business Rates Retention Fund (BRR). The programme end date was extended in September 21 due to a slow start building trust and rapport with customers; Somerset has the highest figures for male suicides heightened by the pandemic, and as a result health and wellbeing has been of paramount importance to the programme.

As of March 22: 98 Men signed up to programme, 15 Work outcomes achieved; Supported 5 business start-up outcomes with 1 ongoing, 12 signposted to accredited courses, 10 referred to positive people project, 6 supported with 1:1 counselling, 2 referred to NHS SWAP programme with 1 successful job outcome following attendance at a virtual event. The programme continues to grow and is well on the way to achieving the objectives highlighted in the business case.

Business Start Up: Funded through Comf in response to Covid, this was a six-month project which completed in July 2022. It has been managed by the Employment, Skills and Training Manager, delivered by Somerset Business Agency.

75 people signed up to the project and there were over 222 total engagements. Overall, the project has been a huge success – Somerset Business Agency has developed a trusted route in for people who want to start their own business.

- Hinkley Point C (HPC)

Sedgemoor District Council continues to support the construction of Hinkley Point C with staff in place to assist the implementation of the project whilst seeking to maximise the benefits and minimise the impacts for local communities and businesses. Delays have been experienced in relation to the refurbishment of Combwich Wharf, but Council officers continue to work proactively with EDF to progress the planning requirements associated with the berthing arrangements and AIL bypass track required to enable deliveries at the wharf. This is now anticipated to be complete by the Autumn of 2022 and ready to receive deliveries later in the year. As the project moves towards peak construction in 2023, the workforce uplift (increase from 5,600 to 8,600 workers on site at peak) represents both opportunities and potential challenges. The Council, together with partners, have and will continue working towards maximising local benefits, including enabling our workforce to access HPC job and training opportunities, and securing mitigating measures for our communities as a result of these increased numbers. The S106 supplemental agreement has been approved which secures additional Council resources to support the project and a package of mitigation measures including Strategic Interventions, to ensure that the workforce uplift will not give rise to any materially new or different effects compared to the conclusions set out in the relevant assessments in the original Environmental Statement on the basis of this mitigation.

Trading Companies

During 2015/16 the Council gained member approval to set up a group of trading companies to allow Sedgemoor to work differently in order to secure additional income to assist in delivering a sustainable budget in the future. A group structure was set up that would in the longer term have financial benefits in terms of tax liabilities. The companies are wholly owned by Sedgemoor District Council and are limited by shares. The holding company is Sedgemoor Group Ltd and currently owns one subsidiary company, Aspen Housing & Development Ltd.

The companies were set up in February 2016 in order to facilitate the purchase of Aspen Court, a privately owned housing scheme with 36 apartments which is operated and managed on a commercial basis. The property has 11 apartments owned by leaseholders and 25 rented out on the open market. The company continues to operate successfully against the estimated budget.

Pensions

Information provided by the actuaries of the Somerset County Council pension scheme, to which the majority of the Council's employees belong, indicates a net deficit on the Council's share of the fund amounting to £90 million.

This is a real liability, which has resulted from pension entitlement earned by employees. It appears in the Council's Balance Sheet but any immediate impact on levels of Council Tax is neutralised by a matching Pensions Reserve. Funding of the deficit will be met in future years by a combination of increased employer contributions and changes in the value of the Pension Fund. Actuarial valuations are made every year, and these will guide the Council in addressing the amount of the deficit.

Treasury Management Performance

During 2021/22 Sedgemoor has explored with its treasury management advisors, investment options available in order to maximise return. The income from investments assists in balancing the revenue budget and is part of the plan detailed in the Balancing the Medium Term Budget Table for delivering a sustainable medium term budget. The portfolio now includes £31 million invested in externally managed funds.

As at the balance sheet date, the authority held the following loans and investments:

Loans	**£'000**
Public Works Loan Board – Housing Revenue Account	53,059
Public Works Loan Board – General Fund	13,000
Non Public Works Loan Board – General Fund	37,000
Total	**103,059**
Investments	**£'000**
Externally managed funds	31,000
Variable rate on call & notice accounts	5,757
Total	**36,767**

Investment performance

Interest received:	Original Budget £'000	Revised Budget £'000	Actual £'000	Average Rate Earned	Benchmark
Externally managed funds	1,529	1,529	1,523	4.91%	-
Fixed rate term deposits	0	0	0	0.00%	-
Variable rate on call & notice accounts	50	50	11	0.05%	0.05%

Further Information

For further information about the statements or additional copies of this document contact the Section 151 Officer, Sedgemoor District Council, Bridgwater House, King Square, Bridgwater, Somerset, TA6 3AR, telephone 01278 435426, email alison.turner@sedgemoor.gov.uk The rights of interested persons to view the accounts are statutorily defined and the dates on which the accounts are available for inspection are advertised on the Council's website.

For 2021/22 the Statement of Accounts inspection period commences on the 1st August 2022. This is in line with the amended statutory deadline as set in The Accounts and Audit (Coronavirus) Amendments Regulations 2022.

These regulations extend the date by which Sedgemoor Councillors need to approve the Statement of Accounts to the 30th September 2022, with sign off by the Section 151 Officer by 31st July 2022.

The accounts will be considered by the Members of the Audit & Standards Committee a date has not been set but it anticipated that this will take place by 30th November 2022.

This would not have been possible without the hard work and commitment of the Finance Team and the support of all council staff and elected members. My thanks go to all of those involved in the process.

Alison Turner CPFA, Strategic Director & Section 151 Officer

The Authority's Responsibilities

The authority is required to:

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

The Chief Financial Officer's Responsibilities

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

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
- complied with the Local Authority Code.

The Chief Financial Officer has also:

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

Pages 24 to 126 of this document comprises the Council's Statement of Accounts for 2021/22 prepared in accordance with the statement of my responsibilities set out above.

I hereby certify that it presents a true and fair view of the financial position of Sedgemoor District Council and the group at 31st March 2022 and its income and expenditure and cash flows, for the year ended on that date.

Alison Turner Alison Turner CPFA 18th July 2022

Movement in Reserves Statement

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

For the year ended 31 March 2022	General Fund Balance £'000	Housing Revenue Account £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied Account £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Authority Reserves £'000
							see note 28	
Balance at 31 March 2021	**32,657**	**11,572**	**0**	**3,432**	**5,200**	**52,861**	**50,697**	**103,558**
Movement in reserves during 2021/22								
Surplus or (deficit) on provision of services	2,077	472	0	0	0	**2,549**	39,422	**41,971**
Adjustments between accounting basis and funding basis under regulations **- see note**	(6,212)	(2,695)	0	775	2,724	**(5,408)**	5,408	**0**
Increase/Decrease in year	**(4,135)**	**(2,223)**	**0**	**775**	**2,724**	**(2,859)**	**44,830**	**41,971**
Balance at 31 March 2022	**28,522**	**9,349**	**0**	**4,207**	**7,924**	**50,002**	**95,527**	**145,529**

For the year ended 31 March 2021	General Fund Balance £'000	Housing Revenue Account £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied Account £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Authority Reserves £'000
							see note 28	
Balance at 31 March 2020	**19,277**	**13,606**	**200**	**2,883**	**4,114**	**40,080**	**47,894**	**87,974**
Movement in reserves during 2020/21								
Surplus or (deficit) on provision of services	1,592	1,625	0	0	0	**3,217**	12,367	**15,584**
Adjustments between accounting basis and funding basis under regulations **- see note**	11,788	(3,659)	(200)	549	1,086	**9,564**	(9,564)	**0**
Increase/Decrease in year	**13,380**	**(2,034)**	**(200)**	**549**	**1,086**	**12,781**	**2,803**	**15,584**
Balance at 31 March 2021	**32,657**	**11,572**	**0**	**3,432**	**5,200**	**52,861**	**50,697**	**103,558**

Comprehensive Income and Expenditure Statement

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

2020/21 Gross Expenditure £'000 Restated	2020/21 Gross Income £'000 Restated	2020/21 Net Expenditure £'000 Restated		2021/22 Gross Expenditure £'000	2021/22 Gross Income £'000	2021/22 Net Expenditure £'000	note
1,097	0	1,097	Chief Executive	962	(59)	903	
1,602	(1,128)	474	Customer Services	2,081	(1,172)	909	
12,008	(6,438)	5,570	Environment & Regulation	11,240	(4,322)	6,918	
25,093	(21,260)	3,833	Finance & Property	22,946	(20,514)	2,432	
5,343	(2,399)	2,944	Housing, Health & Wellbeing	8,737	(3,998)	4,739	
7,425	(5,726)	1,699	Inward investment & Growth	6,920	(5,395)	1,525	
3,149	(197)	2,952	Legal & Governance	5,215	(425)	4,790	
13,712	(18,130)	(4,418)	Housing Revenue Account	14,895	(19,465)	(4,570)	
69,429	**(55,278)**	**14,151**	**Cost of Services**	**72,996**	**(55,350)**	**17,646**	
		3,769	Other Operating Expenditure			5,750	12
		1,001	Financing and Investment income & expenditure			(2,626)	13
		(22,138)	Taxation and non-specific grant income & expenditure			(23,319)	14
		(3,217)	**(Surplus)/deficit on the provision of services**			**(2,549)**	
		(27,343)	(Surplus) or deficit on revaluation of non current assets			(24,212)	
		14,976	Remeasurement of the net defined benefit liability/(asset)			(15,210)	
		(12,367)	**Other Comprehensive Income and Expenditure**			**(39,422)**	
		(15,584)	**Total Comprehensive Income and Expenditure**			**(41,971)**	

Some of the figures in this statement have been affected by the covid-19 funding so will show large variances to the previous year. See note 5 – **material items of income and expenditure** for details.

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the authority 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 authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

31-Mar-21		31-Mar-22		
£'000		**£'000**	**£'000**	**note**
224,665	Property, Plant & Equipment	263,252		15
521	Heritage Assets	521		
42,415	Investment properties	42,142		16
126	Intangible assets	112		
42,711	Long Term Investments	43,824		17
348	Long term debtors	34		
310,786	**Long term assets**		349,885	
660	Short Term Investments	685		18
0	Assets Held for Sale	0		
16	Inventories	26		
21,965	Short Term Debtors	13,311		19
5,699	Cash & cash equivalents	4,685		20
28,340	**Current assets**		18,707	
(1,223)	Short Term Provisions	(1,584)		21
(40,414)	Short Term Borrowing	(32,007)		22
(38,169)	Short Term Creditors	(35,239)		23
(79,806)	**Current liabilities**		(68,830)	
(61,059)	Long Term Borrowing	(71,353)		24
(2,243)	Capital Grants Receipts in Advance	(1,979)		25
(92,460)	Other Long Term Liabilities	(80,900)		26
(155,762)	**Long Term Liabilities**		(154,232)	
103,558	**NET ASSETS**		**145,530**	
52,861	Usable Reserves		50,003	27
50,697	Unusable Reserves		95,527	28
103,558	**TOTAL RESERVES**		**145,530**	

Alison Turner Strategic Director & Section 151 Officer

18th July 2022

Cash Flow Statement

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

2020/21 £'000			2021/22 £'000
(3,217)	Net (surplus) or deficit on the provision of services		**(2,549)**
	Adjustments to net surplus or deficit on the provision of services for non cash movements		
(5,529)	Depreciation	(5,607)	
(6,650)	Impairment and downward valuations	(1,301)	
(11)	Amortisation	(14)	
(229)	(Increase)/decrease in impairment for bad debts	400	
(21,556)	(Increase)/decrease in creditors	4,359	
3,003	Increase/(decrease) in debtors	348	
7	Increase/(decrease) in inventories (stock)	10	
(1,770)	Movement in pension liability	(3,650)	
(3,134)	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	(5,427)	
(5,083)	Other non-cash items charged to the net surplus or deficit on the provision of services.	8,411	
(40,952)	**Total Adjustments to net surplus or deficit on the provision of services for non cash movements**		**(2,471)**
	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities		
2,274	Proceeds from the sale of property plant and equipment, investment property and intangible assets.	2,867	
2,274	**Total Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities**		**2,867**
(41,895)	**Net Cashflow from Operating Activities**		**(2,153)**
26,059	Purchase of Property, Plant & Equipment, investment property and intangible assets	25,731	
929	Purchase of short term & long term investments	596	
419	Other payments for investing activities	2,464	
(2,274)	Proceeds from the sale of Property Plant & Equipment, investment property and intangible assets	(2,867)	
(482)	Proceeds from long & short term investments	(845)	
(3,141)	Capital grants received	(4,272)	
21,510	**Total cashflow from Investing Activities**		**20,807**
(43,000)	Cash receipts of short- and long-term borrowing	(52,000)	
41,916	Repayments of short- and long-term borrowing	50,000	
1,268	Net (increase)/decrease in Council Tax	(3,569)	
25,025	Net (increase)/decrease in National Non Domestic Rates (NNDR)	(12,071)	
25,209	**Total cashflow from Financing Activities**		**(17,640)**
4,824	Net (increase)/decrease in cash and cash equivalents		1,014
(10,523)	Cash & Cash equivalents at the beginning of the reporting period		(5,699)
(5,699)	Cash & Cash equivalents at the end of the reporting period		(4,685)

Note 1 Statement of Significant Accounting Policies

GENERAL PRINCIPLES

The Statement of Accounts summarises the Council's transactions for the 2021/22 financial year and its position at the year-end of 31st March 2022. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and the Service Reporting Code of Practice 2021/22, supported by International Financing Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2011 Act.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments. The accounts are prepared on a going concern basis.

ACCRUALS OF EXPENDITURE & INCOME

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

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council;

- Revenue from the provision of services is recognised when the council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority;

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;

- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract;

- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

CHARGES TO REVENUE FOR NON-CURRENT ASSETS

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

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

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

- Amortisation of intangible fixed assets attributable to the service.

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

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 sick leave, and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render services to the Authority. An accrual is made for the cost of holiday entitlements earned by the employees but not taken before the year end which employees can carry forward into the next financial year. The accrual is made at the salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that benefits are charged to revenue in the financial year in which the holiday absence occurs.

EVENTS AFTER THE REPORTING PERIOD

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

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events

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

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

FAIR VALUE MEASUREMENT

The authority measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings 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:

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

The authority 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 authority 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 authority 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 authority's financial statements are categorised within the fair value hierarchy, as follows:

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

INTERESTS IN COMPANIES

The Authority wholly owns three companies, which are classified as subsidiaries of the Authority and have been consolidated into the Group Accounts as follows: Homes in Sedgemoor Ltd, Sedgemoor Group Ltd & Aspen Housing & Development Ltd

INVENTORIES AND LONG TERM CONTRACTS

Stocks are valued at last known price and represent goods and materials chargeable to revenue, which have not been consumed by the accounting date. Costs are carried forward to be charged in the accounting period in which they are consumed. The Code requires that inventories be shown at the lower of cost and net realisable value. The potential difference between these values for the Authority's purpose is considered immaterial.
Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

OVERHEADS AND SUPPORT SERVICES

The cost of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the *CIPFA Service Reporting Code of Practice 2020/21 (SeRCOP*). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

These two cost categories are defined in SeRCOP.

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 practises or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts of the prior period.

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of 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 Authority 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.

REVENUE RECOGNITION

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net worth. Revenue is recognised when it is probable that future economic benefits will flow to the Council and these benefits can be measured reliably.

IFRS 15 (Revenue from Contracts with Customers) is applied in accounting for revenue arising from the following transactions and events:

- the sale of goods
- the rendering of services
- interest, royalties and dividends.
- non-exchange transactions (i.e. Council tax)
- where previously a liability had been recognised (i.e. creditor) on satisfying the revenue recognition criteria

The amount of revenue arising on a transaction is usually determined by agreement between the Council and the buyer or user of the asset. It is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the Council.

VALUE ADDED TAX

The Authority does not include VAT as part of income or expenditure, except where it is irrecoverable from Her Majesty's Revenue and Customs.

Note 2 Accounting Standards that have been issued but not yet adopted

The standards introduced by the 2022/23 Code where disclosures are required in the 2021/22 financial statements in accordance with the requirements of paragraph 3.3.4.3 of the Code are:

- Annual Improvements to IFRS Standards 2018–2020. 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) – one of a small number of IFRSs that are only expected to apply to local authorities in limited circumstances.

- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16.

It is not anticipated that these standards will have a material impact on the authority's 2021/22 financial statements.

Note 3 Critical Judgements in applying Accounting Policies

In applying the accounting policies set out in Note 1, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- The Council received significant amounts of funding for distribution for use to support the Covid-19 lockdown and recovery and the current cost of living crisis. The terms of such grants meant some could be considered service or general funding with wider judgement required on whether the Authority was acting as agent or principal.
- The authority has reviewed its relationship with other entities and concludes that Homes in Sedgemoor Ltd, Sedgemoor Group Ltd and Aspen Housing & Development Ltd fall under group accounts criteria.

Note 4 Assumptions made about future and other major sources of estimation uncertainty

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

The items in the Authority's Balance Sheet at 31st 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
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would

	projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied Assumptions refer to market rates as at the balance sheet date. COVID-19 has caused volatility in these markets, so there is greater uncertainty on the short term liability but given the duration of the pensions liability this is not expected to have an impact in the long term. **Pension PPE Uncertainty** Due to the economic uncertainty caused by the restrictions imposed by central governments in response to the pandemic the independent valuers used by pooled property funds at Somerset pension fund, of which Sedgemoor District Council is an admitted body, have included a material uncertainty in their 31st of March 2022 valuations. Somerset pension funds property fund valuations are therefore reported on the basis of 'material valuation uncertainty' as per the RICs red book global. A corresponding material uncertainty is disclosed in the council's financial statements as the council's share of property funds is material.	result in a decrease in the pension liability of £4.9m. However, the assumptions interact in complex ways. Similarly if the authority share of pension fund assets was overstated by 1% this would result in an increase to the net pension liability of £5.3m.
Revaluation	Assets are carried in the balance sheet using the following measurement bases: • Infrastructure, community assets and assets under construction – depreciated historical cost • Dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH) based on beacon properties • Operational property plant and equipment – current value • All other assets – fair value Where there is no market-based evidence of fair value because of the specialist	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 £22m. An increase in estimated valuations would result in increases to the Revaluation Reserve and / or reversals of previous negative revaluations to the

	nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value. Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value. **PPE Valuation Uncertainty** The outbreak of Covid-19 has impacted global financial markets and as at the valuation date, less weight can be attached to previous market evidence to inform opinions of value. There is an unprecedented set of circumstances on which to base a judgement. The valuation, at the balance sheet date has therefore been reported on the basis of “material valuation uncertainty” as it has been prepared under extraordinary circumstances. At the current time, it is not possible to accurately predict the longevity and severity of the impact of Covid-19 on the economy. Therefore, comparison to historical market data is less reliable.	Comprehensive Income and Expenditure Statement and / or gains being recorded as appropriate in the Comprehensive Income and Expenditure Statement
Fair value measurements	Where Level 1 inputs are not available, the authority employs relevant experts to identify the most appropriate valuation techniques to determine fair value (for example for investment properties, the authority’s valuation officer and/or external valuer). Information about the valuation techniques and inputs used in determining the fair value of the authority’s assets and liabilities is disclosed in the relevant notes below.	The significant unobservable inputs used in the fair value measurement include management assumptions regarding rent growth, vacancy levels (for investment properties) and discount rates – adjusted for regional factors (for both investment properties and surplus assets). Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for the investment properties and financial assets.

Note 5 Material Items of Income and Expenditure

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

Purchases of Investment property

There were two material transactions in 2020/21 and none in 2021/22.

2020/21 £'000		2021/22 £'000
7,720	The Leggar Retail Park, Bridgwater	0
2,518	The Clink Retail Park, Bridgwater	0
10,238		**0**

Covid 19 Emergency Funding

Business Rates and Grants

As part of the COVID-19 response, the government announced a package of measures to help businesses and Councils deal with the Covid pandemic. The government gave certain retail businesses help by providing extended retail relief on their business rates bills that meant that hundreds of businesses in the district paid no business rates in 2020/21. Again in 2021/22 there was business rates reliefs to help certain businesses but not full relief. The government compensated local authorities for the cost of these reliefs.

In addition, a range of grant schemes to support businesses was announced to be administered by local billing authorities. Billing authorities are responsible for paying over the grants to the businesses and are then reimbursed by government using a grant under Section 31 of the Local Government Act 2003. Some of the schemes are fully reimbursed, others are a set allocation.

The eligibility criteria for these schemes were set out in government guidance and billing authorities were required to use their business rates system to identify the properties that meet the eligibility criteria. These grants are not Collection Fund transactions.

The effect of these reliefs on the accounts is material and seen across all of the core statements.

Business Grants where the authority acted as principal have the following effect on the CIES:

CIES Income £'000	CIES Expenditure £'000	Balance Sheet £'000		CIES Income £'000	CIES Expenditure £'000	Balance Sheet £'000
			Inward Investment & Growth			
(3,558)	1,839	0	Additional Restrictions Support Grant	2,800	(2,800)	0
(1,567)	1,567	0	Local Authority Discretionary Grant Fund	0	0	0
(765)	280	0	Local Restrictions Support Grant (OPEN) V2 2nd Dec onwards	23	(23)	0
2,204	0	(2,204)	Receipt in Advance moved to Balance Sheet	0	0	0
(3,686)	**3,686**	**(2,204)**	**Total**	**2,823**	**(2,823)**	**0**

Business Grants

Business Grants where the authority acted as agent do not affect the Comprehensive Income and Expenditure Statement (CIES) but are shown on the balance sheet as a Creditor:

Grant Income £'000	Grants Paid Out £'000	Creditor on B/S £'000		Creditor on B/S BF £'000	Grant Income £'000	Grant Repaid £'000	Grants Paid Out £'000	Creditor on B/S £'000
6,471	(4,772)	**1,699**	Closed Business Lockdown Payment	1,699	0	(1,562)	(137)	**0**
77	(74)	**3**	Christmas Support Payment for Wet led Pubs	3	0	(3)	0	**0**
2,158	(1,859)	**299**	Local restrictions support grant (closed) addendum	299	0	(241)	(58)	**0**
6,627	(4,829)	**1,798**	Local restrictions support grant (closed) Addendum 5th Jan onwards	1,798	0	(788)	(220)	**790**
618	(143)	**475**	Local restrictions support grant (closed) V2 2nd Dec Onwards	475	0	(469)	(6)	**0**
0	(2)	**(2)**	Local Restrictions Support Grant (Sector)	(2)	2	0	0	**0**
10,000	(10,000)	**0**	Retail, Hospitality and Leisure Grants	0	0	0	0	**0**
16,850	(16,850)	**0**	Small Business Grant Fund	0	0	(10)	10	**0**
0	0	**0**	Restart Grant	0	7,989	0	(7,989)	**0**
0	0	**0**	Omicron Hospitality and Leisure Grant	0	2,160	0	(1,425)	**735**
42,801	**(38,529)**	**4,272**	**Total BEIS Business Grants**	**4,272**	**10,151**	**(3,073)**	**(9,825)**	**1,525**

Other Covid-19 Emergency funding received is reflected in the CIES as follows:

CIES Income £'000		CIES Income £'000
(2,480)	Environment	(1,178)
(1,035)	Finance & Property	(672)
(604)	Taxation & Non Specific Income	(44)
(4,119)	**Total**	**(1,894)**

Business Rates

The government have put in place a package of measures to help businesses and the Council deal with the Covid pandemic. The government gave nursery relief and extended retail relief on business rates bills which meant that hundreds of businesses in the district didn't have to pay business rates in 2020/21. Again in 2021/22 there were business rates reliefs for nursery's and retail, the difference this year was that it was not full relief

Sedgemoor Grant - The government compensated local authorities for the cost of these new reliefs through Section 31 grant payments.

Preceptors Grant - To help the council with cashflow the government paid all of the grant for the new business rates reliefs up front, this is treated as a receipt in advance.

Deficit - Due to the introduction of the new reliefs, we have collected less cash than we were due to pay out to the preceptors, therefore this has had the effect of making the collection fund go into deficit for 2020/21, this happened again in 2021/22 as the new reliefs were announced after the estimates for business rates had been sent to the government via the NNDR1 return..

The effects on the core statements are as follows:

Sedgemoor Grant 20/21 £'000	Sedgemoor Deficit 20/21 £'000	Preceptors Grant 20/21 £'000	Preceptors Deficit 20/21 £'000		Sedgemoor Grant 21/22 £'000	Sedgemoor Deficit 21/22 £'000	Sedgemoor PY Deficit 21/22 £'000	Preceptors Grant 21/22 £'000	Preceptors Deficit 21/22 £'000
				Movement in Reserves Statement					
(7,795)	9,280	0	0	Surplus/deficit on provision of services Income	(3,382)	(4,665)	7,795	0	0
0	(9,280)	0	0	Adjustments between accounting basis and funding basis	0	4,665	0	0	0
7,795	0	0	0	To/(from) Business Rate	3,382	0	(7,795)	0	0
				Comprehensive Income & Expenditure Statement					
(7,795)	9,280	0	0	Taxation & Non specific grant income	(3,382)	(4,665)	7,795	0	0
				Balance Sheet					
0	0	0	10,882	Debtor - Business Rates Preceptor	0	0	0	0	3,649
0	0	11,693	0	Creditor - Business Rates - Preceptors Section 31 grant	0	0	0	5,365	0
0	9,280	0	0	Reserves - Collection Fund Adjustment Account	0	(4,665)	0	0	0
(7,795)	0	0	0	To/(from) Business Rate Reserve	(3,382)	0	7,795	0	0

The effect on the cashflow of Business Grants and Business Rates

Business Grants £'000	Business Rates £'000		Business Grants £'000	Business Rates £'000
		Movement in Creditors - Increase/(decrease)		
4,272	0	BEIS - Business Grants (Agent)	(2,747)	0
2,204	0	BEIS - Business Grants (Principal)	(2,204)	0
0	11,693	Business Rates - Preceptors Section 31 grant	0	(6,388)
		Net decrease in National Non Domestic Rates (NNDR)		
0	22,918	Collection fund deficit	0	(12,071)

BEIS = Department for Business, Energy & Industrial Strategy

Note 6 Expenditure and Funding Analysis

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

For the year ended 31 March 2022	Net Expenditure Chargeable to the General Fund and HRA Balances £'000	Adjustments between Funding and Accounting Basis £'000	Net Expenditure in the Comprehensive Income and Expenditure Statement £'000
Chief Executive	903	0	**903**
Customer Services	888	21	**909**
Environment & Regulation	6,259	659	**6,918**
Finance & Property	2,425	7	**2,432**
Housing, Health & Wellbeing	2,920	1,819	**4,739**
Inward Investment & Growth	1,525	0	**1,525**
Legal & Governance	2,951	1,839	**4,790**
Central Support	(1,327)	1,327	**0**
Housing Revenue Account	(9,585)	5,015	**(4,570)**
Net cost of services	**6,959**	**10,687**	**17,646**
Other income and expenditure	(601)	(19,594)	**(20,195)**
Surplus or deficit	**6,358**	**(8,907)**	**(2,549)**
Opening General Fund and HRA Balance at 31 March	(44,229)		
(Surplus)/Deficit on General Fund and HRA Balance in Year	6,358		
Closing General Fund and HRA Balance at 31 March *	**(37,871)**		

For the year ended 31 March 2021 Restated	Net Expenditure Chargeable to the General Fund and HRA Balances £'000	Adjustments between Funding and Accounting Basis £'000	Net Expenditure in the Comprehensive Income and Expenditure Statement £'000
Chief Executive	1,097	0	**1,097**
Customer Services	449	25	**474**
Environment & Regulation	5,261	309	**5,570**
Finance & Property	3,086	747	**3,833**
Housing, Health & Wellbeing	2,890	54	**2,944**
Legal & Governance	1,628	0	**1,628**
Inward Investment & Growth	2,989	34	**3,023**
Central Support	(1,098)	1,098	**0**
Housing Revenue Account	(9,293)	4,875	**(4,418)**
Net cost of services	**7,009**	**7,142**	**14,151**
Other income and expenditure	(18,355)	987	**(17,368)**
Surplus or deficit	**(11,346)**	**8,129**	**(3,217)**
Opening General Fund and HRA Balance at 31 March	(32,883)		
(Surplus)/Deficit on General Fund and HRA Balance in Year	(11,346)		
Closing General Fund and HRA Balance at 31 March *	**(44,229)**		

**for a split of this balance between the General Fund and the HRA – see the Movement Reserves Statement.*

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts

For the year ended 31 March 2022	Adjustments for Capital Purposes (1) £'000	Net change for the Pensions (2) £'000	Other Differences (3) £'000	Total Adjustments £'000
Chief Executive	0	0	0	**0**
Customer Services	21	0	0	**21**
Environment & Regulation	659	0	0	**659**
Finance & Property	7	0	0	**7**
Housing, Health & Wellbeing	1,819	0	0	**1,819**
Inward Investment & Growth	0	0	0	**0**
Legal & Governance	0	1,839	0	**1,839**
Corporate Support	1,327	0	0	**1,327**
Housing Revenue Account	5,015	0	0	**5,015**
Net cost of services	**8,848**	**1,839**	**0**	**10,687**
Other income and expenditure	(14,786)	1,811	(6,619)	**(19,594)**
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit	**(5,938)**	**3,650**	**(6,619)**	**(8,907)**

For the year ended 31 March 2021	Adjustments for Capital Purposes (1) £'000	Net change for the Pensions (2) £'000	Other Differences (3) £'000	Total Adjustments £'000
Chief Executive	0	0	0	**0**
Customer Services	25	0	0	**25**
Environment & Regulation	309	0	0	**309**
Finance & Property	657	0	90	**747**
Housing, Health & Wellbeing	54	0	0	**54**
Legal & Governance	0	0	0	**0**
Inward Investment & Growth	0	34	0	**34**
Corporate Support	1,098	0	0	**1,098**
Housing Revenue Account	4,875	0	0	**4,875**
Net cost of services	**7,018**	**34**	**90**	**7,142**
Other income and expenditure	(6,837)	1,736	6,088	**987**
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit	**181**	**1,770**	**6,178**	**8,129**

Adjustments for Capital Purposes

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

Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.

Financing and investment income and expenditure – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.

Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Net Change for the Pensions Adjustments

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

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

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

Other Differences

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

For Financing and investment income and expenditure the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.

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

Note 7 Segmental Income

Income received on a segmental basis is analysed below:

2020/21 Income from Services £'000 Restated		2021/22 Income from Services £'000
0	Chief Executive	(59)
(1,128)	Customer Services	(1,172)
(6,438)	Environment & Regulation	(4,322)
(21,260)	Finance & Property	(20,514)
(2,399)	Housing, Health & Wellbeing	(3,998)
(5,726)	Legal & Governance	(5,395)
(197)	Inward Investment & Growth	(425)
(18,130)	Housing Revenue Account	(19,465)
(55,278)	**Net cost of services**	**(55,350)**

Note 8 Expenditure and Income Analysed by Nature

The Authority's expenditure and Income is analysed as follows:

2020/21 £'000		2021/22 £'000
	Expenditure	
16,873	Employee expenses	19,907
51,151	Other service expenses	49,688
16,997	Support Service recharges	18,164
12,286	Depreciation, amortisation and impairment	9,142
2,012	Interest Payments	2,084
4,254	Precepts & Levies	4,591
275	Payments to Housing Capital Receipts Pool	274
860	Gain or Loss on Disposal of Fixed Assets	2,560
104,708	**Total operating expenses**	**106,410**
	Income	
(52,659)	Fees, charges & other service income	(57,185)
(5,765)	Interest and investment income	(3,621)
(9,578)	Income from council tax	(10,286)
4,777	Income from business rates	1,210
(44,700)	Government grants and contributions	(39,077)
(107,925)	**Total Income**	**(108,959)**
(3,217)	**(Surplus)/deficit on the provision of services**	**(2,549)**

Note 9 Contracts with Service Recipients

Included within income from fees and charges of £57.1m (52.7m 2020/21) are the following amounts derived from contracts with service recipients as defined by IFRS 15.

2020/21 £'000		2021/22 £'000
(945)	Building Control	(1,017)
(978)	Planning	(1,310)
(651)	Car Park Income	(1,193)
(3,017)	Commercial Rent & Licences over land	(3,715)
(634)	Careline	(647)
(177)	Licences	(176)
(623)	Garden Waste	(81)
(183)	Search Fees	(195)
(16,429)	HRA rental income	(16,800)
(23,637)	**Total income from Contracts with Service Recipients**	**(25,134)**

The performance obligations relating to the key lines of income above are all fulfilled when payment is made except where the charge is for a monthly, quarterly or annual fee or licence where the obligation is discharged within that period. There are no performance obligations unsatisfied at the balance sheet date.

Note 10 Adjustments between accounting basis and funding basis under regulations

General Fund Balance

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

Housing Revenue Account Balance

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

Major Repairs Reserve

The authority is required to maintain the Major Repairs Reserve, which controls an element of the capital resources limited to being used on capital expenditure on HRA assets or the financing of historical capital expenditure by the HRA. The balance shows the capital resources that have yet to be applied at the year-end.

Capital Receipts Reserve

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

Capital Grants Unapplied

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

	2021/22					
	General Fund Balance £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	Movement in Unusable Reserves £'000
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory						
- Pensions costs (transferred to/(from)) the Pensions Reserve)	3,650	0	0	0	0	**3,650**
- Financial Instruments (transferred from the Financial Instruments Adjustment Account)	(3)	0	0	0	0	**(3)**
- Council Tax and NDR (transfers to/(from) the Collection Fund Adjustment Account)	(5,193)	0	0	0	0	**(5,193)**
- Pooled investments changes (transferred to/(from) the Pooled Investments Fund Adjustment Account)	(1,425)	0	0	0	0	**(1,425)**
- Reversal of entries included in the surplus or deficit on the provision of services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	2,413	10,301	0	0	0	**12,714**
Total Adjustments to Revenue Resources	**(558)**	**10,301**	**0**	**0**	**0**	**9,743**
Adjustments between Revenue & Capital Reserves						
Capital Receipts Reserve (CRR)						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(57)	(2,810)	2,867	0	0	**0**
Contribution from CRR to finance payments to the Government capital receipts pool	274	0	(274)	0	0	**0**
Major Repairs Reserve (MRR)						
Reversal of notional Major Repairs Allowance	0	(5,015)	0	5,015	0	**0**
Capital Adjustment Account (CAA)						
Statutory provision for the financing of capital investment	(1,355)	0	0	0	0	**(1,355)**
Capital expenditure charged against the General Fund & HRA Balances	(1,790)	(5,171)	0	0	0	**(6,961)**
Total Adjustments between Revenue & Capital	**(2,928)**	**(12,996)**	**2,593**	**5,015**	**0**	**(8,316)**
Adjustments to Capital Resources						
Capital Receipts Reserve (CRR)						
Use of CRR to finance new capital expenditure	0	0	(1,818)	0	0	**(1,818)**
Major Repairs Reserve (MRR)						
Use of MRR to finance new capital expenditure	0	0	0	(5,015)	0	**(5,015)**
Capital Grants Unapplied Account (CGUA)						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(2,724)	0	0	0	2,724	**0**
Total Adjustments to Capital Resources	**(2,724)**	**0**	**(1,818)**	**(5,015)**	**2,724**	**(6,833)**
TOTAL ADJUSTMENTS	**(6,210)**	**(2,695)**	**775**	**0**	**2,724**	**(5,406)**

	2020/21					
	General Fund Balance £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	Movement in Unusable Reserves £'000
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements						
- Pensions costs (transferred to/(from)) the Pensions Reserve)	1,770	0	0	0	0	**1,770**
- Financial Instruments (transferred from the Financial Instruments Adjustment Account)	(4)	0	0	0	0	**(4)**
- Council Tax and NDR (transfers to/(from) the Collection Fund Adjustment Account)	9,353	0	0	0	0	**9,353**
- Holiday pay (transferred to the Accumulated Absences Reserve)	90	0	0	0	0	**90**
- Pooled investments changes (transferred to/(from) the Pooled Investments Fund Adjustment Account)	(3,264)	0	0	0	0	**(3,264)**
- Reversal of entries included in the surplus or deficit on the provision of services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	6,821	8,137	0	0	0	**14,958**
Total Adjustments to Revenue Resources	**14,766**	**8,137**	**0**	**0**	**0**	**22,903**
Adjustments between Revenue & Capital Reserves						
Capital Receipts Reserve (CRR)						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(425)	(1,849)	2,274	0	0	**0**
Contribution from CRR to finance payments to the Government capital receipts pool	274	0	(274)	0	0	**0**
Major Repairs Reserve (MRR)						
Reversal of notional Major Repairs Allowance	0	(4,875)	0	4,875	0	**0**
Capital Adjustment Account (CAA)						
Statutory provision for the financing of capital investment	(1,143)	0	0	0	0	**(1,143)**
Capital expenditure charged against the General Fund & HRA Balances	(598)	(5,072)	0	0	0	**(5,670)**
Total Adjustments between Revenue & Capital	**(1,892)**	**(11,796)**	**2,000**	**4,875**	**0**	**(6,813)**
Adjustments to Capital Resources						
Capital Receipts Reserve (CRR)						
Use of CRR to finance new capital expenditure	0	0	(1,451)	0	0	**(1,451)**
Major Repairs Reserve (MRR)						
Use of MRR to finance new capital expenditure	0	0	0	(5,075)	0	**(5,075)**
Capital Grants Unapplied Account (CGUA)						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(1,086)	0	0		1,086	**0**
Total Adjustments to Capital Resources	**(1,086)**	**0**	**(1,451)**	**(5,075)**	**1,086**	**(6,526)**
TOTAL ADJUSTMENTS	**11,788**	**(3,659)**	**549**	**(200)**	**1,086**	**9,564**

Note 11 Movements in earmarked reserves

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2021/22.

	1st April 2020 £'000	Transfers Out £'000	Transfers In £'000	31st March 2021 £'000	Transfers Out £'000	Transfers In £'000	31st March 2022 £'000
General Fund							
Apprentices	**228**	(154)	285	**359**	(154)	333	**538**
Business Incubation Space	**162**	(63)	70	**169**	(33)	125	**261**
Business Rates Retention*	**1,750**	0	9,853	**11,603**	(7,510)	3,382	**7,475**
CCTV equipment	**99**	(27)	0	**72**	(54)	0	**18**
CCTV equipment TDBC	**325**	(134)	164	**355**	(449)	166	**72**
Commercial Property	**191**	0	147	**338**	0	180	**518**
Community Development Fund	**5,001**	(1,207)	1,537	**5,331**	(2,275)	1,063	**4,119**
Corporate buildings	**177**	(34)	60	**203**	(25)	60	**238**
Flooding	**63**	0	0	**63**	(63)	0	**0**
Homelessness	**287**	(391)	537	**433**	(544)	909	**798**
Housing Improvement	**226**	(39)	0	**187**	0	253	**440**
Insurance fund	**109**	(39)	0	**70**	0	8	**78**
IT equipment replacement	**216**	(65)	134	**285**	(75)	254	**464**
Kings of Wessex Pool	**363**	(45)	68	**386**	(73)	68	**381**
Land Charges	**74**	0	0	**74**	(74)	0	**0**
Medium Term Managed use of Balances**	**6,953**	(807)	2,545	**8,691**	(845)	1,230	**9,076**
New Burdens	**902**	(357)	46	**591**	(294)	48	**345**
Somerset Building Control Partnership	**371**	0	107	**478**	0	103	**581**
Succession Planning	**53**	(3)	44	**94**	0	0	**94**
Port of Bridgwater	**0**	0	540	**540**	(256)	0	**284**
Covid 19 contingency	**0**	0	618	**618**	(972)	1,124	**770**
Other	**227**	(151)	141	**217**	(115)	370	**472**
Total General Fund Reserve Funds	**17,777**	**(3,516)**	**16,896**	**31,157**	**(13,811)**	**9,676**	**27,022**
Reconciliation to Expenditure & Funding Analysis:							
General Fund earmarked reserves	17,777			31,157			27,022
General Fund non-earmarked reserves	1,500			1,500			1,500
HRA non-earmarked reserves	13,606			11,572			9,349
Total General Fund and HRA reserves	**32,883**			**44,229**			**37,871**

* The additional business rate reliefs given by the government, has been put into the BRR reserve in 2020/21 as the loss in real income won't be seen until 2021/22, again in 2021/22 there were additional reliefs which wont see the loss in income until 2022/23 therefore the reliefs for 2021/22 were put into the reserve.

** To ensure that reserves are in place for the delivery of the medium term budget as planned within the Medium Term Financial Plan, a specific reserve fund was set up at the end of 2019/20 for the MTFP managed use of balances, leaving the risk assessed minimum balance of £1.5 in general unallocated balances.

Note 12 Other operating expenditure

2020/21 £'000		2021/22 £'000
2,635	Precepts Paid to Town & Parish Councils	2,916
	Reversed in the Movement in Reserves	
274	HRA Capital Receipts, Contribution to National Pool	274
860	Gain on Disposal of non-current assets	2,560
3,769		**5,750**

Precepts paid to Town & Parish Councils

Each of the 54 parishes in Sedgemoor has a local representative body – town councils in Axbridge, Bridgwater, Burnham on Sea and Highbridge, North Petherton, 47 parish councils and 3 parish meetings.

Their main source of income is from precepts on this Council, apart from three who do not precept.

2020/21 £'000		2021/22 £'000
	The largest precepts were:	
632	Bridgwater	879
718	Burnham on Sea & Highbridge	707
171	Cheddar	183
155	North Petherton	161
98	Wembdon	98
89	Axbridge	93
65	Wedmore	65

Note 13 Financing and investment income and expenditure

2020/21 £'000 Restated		2021/22 £'000
2,012	Interest payable & similar charges	2,084
(2,535)	Interest receivable & similar income	(2,154)
(265)	Net Deficit/(surplus) from Trading Services	200
(1,945)	Net Income from Investment Properties	(3,373)
	Reversed in the Movement in Reserves	
5,228	Changes in Fair Value on Investment Properties - see note 16	273
1,736	Pensions Interest Cost & Return on Assets	1,811
34	Expected Credit Loss	(42)
(3,264)	Financial Investments Revaluations	(1,425)
1,001		**(2,626)**

Note 14 Taxation and non-specific grant income and expenditure

2020/21 £'000		2021/22 £'000
	Council Tax Income	
(9,567)	Precept on Collection Fund	(9,980)
(83)	Deficit/Surplus on Collection Fund	232
(81)	Tax Income Guarantee	0
	Formula Funding	
(3,553)	Business Rates Baseline	(3,553)
(20)	Revenue Support Grant	(21)
0	Lower Teir Grant	(151)
	Business Rates Retention	
(17,396)	Demand on Collection Fund	(17,071)
10,959	Tariff Payment	10,959
3,553	Business Rates Baseline	3,553
2,264	Levy Payment	2,045
(1,698)	Business rates pool dividend	(1,302)
(340)	Business rates pilot dividend	0
(209)	Renewable energy	(231)
(9,962)	Section 31 grants	(4,874)
(1,636)	Deficit/(Surplus) on Collection Fund	7,912
	Non Ringfenced Government Grants	
(1,536)	New Homes Bonus	(1,063)
(604)	Sales Fees and Charges Compensation	(44)
	Reversed in the Movement in Reserves	
72	Collection Fund Adjustment - Council Tax	(538)
9,280	Collection Fund Adjustment - Business Rates	(4,655)
(1,086)	Comminuty Infrastructure Levy	(2,724)
(495)	Capital Grants	(1,813)
(22,138)	**Total**	**(23,319)**

Precept on Collection fund

This is the share of the cost of services to be met locally by Council Taxpayers, together with varying amounts to meet parish precepts in parts of its area. The total credited here is the expected yield of those tax amounts.

The Council set a Council Tax for a Band D property as follows,

22nd February 2021 £172.32 for 2021/22
20th February 2020 £167.32 for 2020/21

Somerset Business Rates Pool/Pilot

As part of the Business Rates Retention system the Government introduced a system of Levies and Safety Nets. Growth is limited by a Levy, which pays for a national safety net for authorities whose Business Rates base declines by more than 7.5%.

The Levy rate can be reduced by being part of a Business Rates Pool. Sedgemoor has been in a Business rates pool from 1st April 2015 in various forms apart from one year (2019/20) when we were in a 75%

business rates pilot. The current Business Rates Pool for 2021/22 is made up of all of the four district councils and the county council.

Balance Sheet Notes

Note 15 Property, plant and equipment

Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

- The purchase price
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

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

Assets are carried in the balance sheet using the following measurement bases:

- Infrastructure and assets under construction – depreciated historical cost
- Community assets – held at a nominal value of £1 (the purchase price and capitalised costs being written off in year as accelerated depreciation)
- Dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH) based on beacon properties
- Surplus and investment assets – measured at fair value
- Operational assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV)

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

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

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

Where decreases in value are identified, they are accounted for in the following way:

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

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

Impairment

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

Depreciation

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

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset, based on cost less residual value.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the costs are depreciated separately. A review of assets identified no such components.

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

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

Other Land and buildings	10-55 years
Vehicles, Plant, Furniture and Equipment	1-30 years
Infrastructure	20-37 years

Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered 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 on fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

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

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

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet 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 also credited to the same line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

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

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

	Property, Plant & Equipment 2021/22						
	Council dwellings £'000	**Other land and buildings £'000**	**Infra-structure assets £'000**	**Vehicles, plant and equipment £'000**	**Surplus assets £'000**	**PP&E under construction £'000**	**Total PP&E £'000**
Cost or Valuation							
At 1 April 2021	**195,809**	**21,997**	**489**	**5,316**	**1,071**	**2,708**	**227,390**
Additions	11,840	807	0	1,022	0	12,768	**26,437**
Revaluation Increases/(decreases) recognised in the Revaluation Reserve	17,984	917	0	0	23	0	**18,924**
Revaluation Increases/(decreases) recognised in the surplus/deficit on the provision of services	0	(1,082)	0	0	55	0	**(1,027)**
Derecognition - Disposals	(5,416)	0	0	(40)	0	0	**(5,456)**
Assets reclassified	900	336	0	0	0	(1,236)	**0**
At 31 March 2022	**221,117**	**22,975**	**489**	**6,298**	**1,149**	**14,240**	**266,268**
Depreciation and impairment							
At 1 April 2021	**0**	**0**	**(385)**	**(2,340)**	**0**	**0**	**(2,725)**
Depreciation Charge	(4,756)	(532)	(7)	(312)	0	0	**(5,607)**
Depreciation written out to the Revaluation Reserve	4,756	532	0	0	0	0	**5,288**
Derecognition - Disposals	0	0	0	29	0	0	**29**
Impairment	0	0	0	0	0	(1)	**(1)**
At 31 March 2022	**0**	**0**	**(392)**	**(2,623)**	**0**	**(1)**	**(3,016)**
NET BOOK VALUE							
At 31 March 2022	**221,117**	**22,975**	**97**	**3,675**	**1,149**	**14,239**	**263,252**
At 31 March 2021	195,809	21,997	104	2,976	1,071	2,708	224,665

	Property, Plant & Equipment 2020/21						
	Council dwellings £'000	**Other land and buildings £'000**	**Infra-structure assets £'000**	**Vehicles, plant and equipment £'000**	**Surplus assets £'000**	**PP&E under construction £'000**	**Total PP&E £'000**
Cost or Valuation At 1 April 2020	**166,036**	**19,446**	**489**	**4,566**	**1,405**	**2,470**	**194,412**
Additions	10,928	343	0	50	0	4,024	**15,345**
Revaluation Increases/(decreases) recognised in the Revaluation Reserve	18,545	3,617	0	0	16	0	**22,178**
Revaluation Increases/(decreases) recognised in the surplus/deficit on the provision of services	0	(1,409)	0	0	(13)	0	**(1,422)**
Derecognition - Disposals	(3,124)	0	0	0	0	0	**(3,124)**
Assets reclassified	3,424	0	0	700	(337)	(3,786)	**1**
At 31 March 2021	**195,809**	**21,997**	**489**	**5,316**	**1,071**	**2,708**	**227,390**
Depreciation and impairment At 1 April 2020	**0**	**0**	**(375)**	**(1,985)**	**0**	**0**	**(2,360)**
Depreciation Charge	(4,684)	(481)	(10)	(355)	0	0	**(5,530)**
Depreciation written out to the Revaluation Reserve	4,684	481	0	0	0	0	**5,165**
Derecognition - Disposals	0	0	0	0	0	0	**0**
At 31 March 2021	**0**	**0**	**(385)**	**(2,340)**	**0**	**0**	**(2,725)**
NET BOOK VALUE At 31 March 2021	**195,809**	**21,997**	**104**	**2,976**	**1,071**	**2,708**	**224,665**
At 31 March 2020	166,036	19,446	114	2,581	1,405	2,470	192,052

CAPITAL COMMITMENTS

The capital commitments at 31st March 2022 were £1.6m for Neighbourhood improvement works, estate refurbishments, cyclical decorations, 5* Homes and major voids contracts (£4.6m at 31.3.20).

REVALUATIONS

The Authority revalues its Property, Plant and Equipment annually with the last full valuation taking place in March 2022. All valuations are carried out by an external valuer, Wilks Head & Eve LLP. Valuations of land and buildings were carried out in accordance with the methodologies and basis for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

	Council Dwellings £'000	Other Land & Buildings £'000	Infra-structure assets £'000	Vehicles, Plant & Equipment £'000	Surplus Assets £'000	PP&E under construction £'000	Total £'000
valued at fair value as at: 31st March 2022	0	0	0	0	1,149	0	**1,149**
valued at DHC as at: 31st March 2022	0	0	97	3,675	0	0	**3,772**
valued at current value as at: 31st March 2022	221,117	22,975	0	0	0	14,239	**258,331**
Total	**221,117**	**22,975**	**97**	**3,675**	**1,149**	**14,239**	**263,252**

Council Dwellings

The basis of valuation for the housing stock within the HRA is Existing Use Value for Social Housing (EUV-SH) as defined by the Royal Institution of Chartered Surveyors Appraisal and Valuation Standards 5th Edition, adjusted to represent the occupation by a secured tenant. The adjustment factor applied is currently 35%.

Surplus properties

Fair value hierarchy for surplus properties

All surplus properties were measured at Level 2 - using observable inputs.

Transfers between Levels of the Fair Value Hierarchy

There were no transfers between Levels during the year.

Valuation Techniques used to Determine Level 2 Fair Values for Investment Properties

Significant Observable Inputs – Level 2

The fair value has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local authority area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

Highest and Best Use of Surplus Properties

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

Valuation Techniques

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

Note 16 Investment properties

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

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arms-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the capital Receipts Reserve.

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

2020/21 £'000 Restated		2021/22 £'000
2,785	Rental income from investment property	3,852
(840)	Direct operating expenses arising from investment property	(479)
1,945	**Net gain/(loss)**	**3,373**

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

It should be noted however that due to Covid-19, some of our tenants benefited from a rent-free period in 2020/21.

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

2020/21 £'000		2021/22 £'000
37,405	Balance at 1 April	42,415
10,238	Additions	0
(5,228)	Net gains/(losses) from fair value adjustments	(273)
42,415	**Balance at 31 March**	**42,142**

The authority holds investment properties both on HRA and general fund land. Many of these properties were originally developed to provide facilities on residential estates.

During 2020/21 the final two purchases of investment property were made as part of the authority's commercial strategy to bring in additional revenue to the authority. No purchases were made in 2021/22. These purchases are detailed in note 5.

Fair value hierarchy

All investment properties were measured at Level 3 - using unobservable inputs.

Transfers between Levels of the Fair Value Hierarchy

There were no transfers between Levels during the year.

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

Significant Observable Inputs – Level 2

There are no investment properties that are valued using level 2 observable inputs.

Significant Unobservable Inputs – Level 3

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

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

Highest and Best Use of Investment Properties

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

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

Gains or losses arising from changes in the fair value of the investment property are recognised in Surplus or Deficit on the Provision of Services – Financing and Investment Income and Expenditure line.

Note 17 Long Term Investments

2020/21 £'000		2021/22 £'000
39,194	Balance at 1 April	42,711
929	New Service Loans	596
3,264	Valuation adjustments taken to pooled investments adjustment account	1,426
(16)	Change in Expected Credit Losses	(38)
(482)	Loans Repaid	(845)
(178)	Repayable within 12 months	(26)
42,711	**Balance at 31 March**	**43,824**
2,843	CCLA Diversified Income Fund	2,975
4,664	CCLA Property Fund	5,483
4,905	Investec Diversified Income Fund	4,738
4,883	Kames Diversified Monthly Income Fund	4,875
6,676	Schroder Income Maximiser Fund	7,402
4,663	UBS Global Income Fund	4,588
695	Sedgemoor Group Ltd - equity	695
1,346	Aspen Housing & Development Ltd - loan	1,314
12,036	Loans	11,754
42,711	**Balance at 31 March**	**43,824**

Note 18 Short Term Investments

2020/21 £'000		2021/22 £'000
482	Balance at 1 April	660
(482)	Maturities	(660)
660	Long Term loans due within 12 months	685
660	**Balance at 31 March**	**685**

Short-term investments are those due to mature within 3 to 12 months. Investments that are on call or due to mature within 3 months are held as cash equivalents.

Note 19 Short term debtors

31-Mar-21 £'000		31-Mar-22 £'000
1,919	Central Government Bodies	2,147
317	Other Local Authorities	584
1,698	Business Rates - Pool Dividend due	1,485
876	Collection Fund Business Rates - Sedgemoor Share	1,198
10,882	Collection Fund Business Rates - Major Preceptors	3,649
586	Collection Fund Council Tax - Sedgemoor Share	664
2,382	Collection Fund Council Tax - Major Preceptors	0
152	Other Entities and individuals	212
4,276	Sundry Debtors	4,377
439	Payments in Advance	353
37	Long Term due within 12 months	29
(1,599)	*Less bad debt provisions*	(1,387)
21,965		**13,311**

Collection Fund Business Rates and Council Tax – The Major Preceptors share, is normally a net Creditor, in the previous year due this has changed from being a net creditor to being a net debtor in 20/21, the main reason for this is the deficit on the collection fund due to additional reliefs given to business rate payers during the year. This has reverted back to being a net creditor for Council Tax but has remained a net Debtor for Business Rates, again this is due to the additional reliefs given during the year.

Note 20 Cash and cash equivalents

31-Mar-21 £'000		31-Mar-22 £'000
1	Cash held by the Authority	1
(528)	Bank Current Accounts	(1,073)
0	Short term deposits	0
6,226	Short term deposits held at fair value	5,757
5,699		**4,685**

Short term deposits are being kept to a minimum as returns on these investments are low.

Note 21 Provisions

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

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Authority 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 revenue if it is virtually certain that reimbursement will be received if the authority settles the obligation.

	1st April 2020	Arising in year	Utilised	31st March 2021	Arising in year	Utilised	31st March 2022
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Employee Benefits	**249**	339	(249)	**339**	339	(339)	**339**
Insurance	**1**	6	0	**7**	11	0	**18**
NDR Appeals	**1,549**	684	(1,356)	**877**	696	(346)	**1,227**
Total	**1,799**	**1,029**	**(1,605)**	**1,223**	**1,046**	**(685)**	**1,584**

NDR appeals - A provision has been made for the estimated success of appeals made against rateable values of property. These appeals are logged with the valuation office and the provision is made on current appeals outstanding, basing the calculation on successful historic appeals up to March 2022. These are likely to materialise throughout the year depending on the valuation office's time constraints.

Note 22 Short term borrowing

31-Mar-21 £'000		31-Mar-22 £'000
414	Accrued interest on long term borrowing	301
0	PWLB loans due for repayment in the next 12 months	4,706
5,000	Non PWLB loans due for repayment in the next 12 months	0
35,000	Short Term borrowing from other local authorities - GF	32,000
40,414		**37,007**
35,190	General Fund	27,077
5,224	Housing Revenue Account	4,930
40,414		**32,007**

Where long-term loans are due to mature within the next 12 months, they are included as short-term borrowing.

Short term borrowing was used to fund the capital programme in order to take advantage of low interest rates.

Note 23 Short term creditors

31-Mar-21 £'000		31-Mar-22 £'000
2,132	Central Government Bodies	3,648
4,272	Department for Business, Energy & Industrial Strategy - Business Grants (Agent)	1,524
650	Other Local Authorities	536
2,264	Business Rates - Levy Payment due	2,033
262	Collection Fund Business Rates - Sedgemoor Share	256
0	Collection Fund Business Rates - Major Preceptors	738
204	Collection Fund Council Tax - Sedgemoor Share	166
2,349	Other Entities and Individuals	1,682
1,535	Sundry Creditors	3,275
	Receipts in Advance	
1,793	Commuted Sums, RLT2&3 Contributions	1,947
1,206	Flood Tariff	1,355
3,768	Hinkley Point C Development S106	2,457
1,624	Better Care Fund	719
349	Other S106	581
1,804	General	2,172
11,753	Business Rates - Preceptors Section 31 grant	5,365
2,204	Department for Business, Energy & Industrial Strategy - Business Grants (Principal)	6,785
38,169		**35,239**

Collection Fund Business Rates – Major Preceptors, this is normally a net creditor, this has changed to being a net debtor this year for this year and the previous year, the main reason for this is the deficit on the collection fund due to additional reliefs given to business rate payers during the year.

Business Rates preceptors Section 31 Grant – To help the council with cashflow the government paid all of the grant for the new business rates reliefs up front, this is treated as a receipt in advance. We will have to pay this back to the government at the same time the preceptors pay their deficit to us.

Business Grants – These are the grants that we have received for Covid 19 grants to businesses, which we have not yet paid out.

Note 24 Long term borrowing

2020/21 £'000		2021/22 £'000
58,059	Balance at 1 April	61,059
8,000	New borrowing advanced during the year - HRA	0
0	New borrowing advanced during the year - GF	15,000
(5,000)	*less* moved to short term borrowing - maturity within 12 months	(4,706)
61,059	Balance at 31 March	**71,353**
8,000	General Fund	23,000
53,059	Housing Revenue Account	48,353
61,059		**71,353**

Where long-term loans are due to mature within the next 12 months, they are included as short-term borrowing. Long Term borrowing is currently taken from the PWLB only.

Note 25 Capital Grants Receipts in Advance

31-Mar-21 £'000		31-Mar-22 £'000
375	Mead Realisations - Isleport	25
15	George Wimpey	15
120	Community Housing Fund	64
150	HOSW LEP Fund	75
255	DLUHC Towns Funding	1160
519	BEIS Green Homes Grant 1A	0
809	BEIS Green Homes Grant 1B	640
2,243	**Total Capital Grants Receipts in Advance**	**1,979**

Note 26 Pension liability

This balance shows an estimate of the liability relating to the Council's share of the Somerset County Council superannuation fund.

It is derived from the information provided by the fund's Actuary and contributions paid during 2021/22.

The liability will fall due for payment when the staff within the pension scheme reach retirement age.

The accounting standard IAS19, Retirement Benefits, requires that pension benefits be shown in the accounts as they are earned during an employee's working life.

The size of the liability will change over time and depends on the performance of the fund's assets which are detailed in the note **Defined benefit pension scheme**.

2020/21 £'000		2021/22 £'000
	Balance at 1 April	
70,640	opening balance, share of fund deficit, start of year	87,712
5,074	unfunded liabilities start of year, Actuary's estimate	4,748
14,976	remeasurement (gain)/loss	(15,210)
	Reversal of items relating to retirement benefits debited or credited to the surplus or deficit on the provision of services in the Comprehensive Income & Expenditure Statement	
3,670	current service cost for year, Actuary's estimate	5,629
43	pensions administration cost	51
0	Liabilities/Settlements	(53)
1,736	pensions interest cost, Actuary's estimate	1,811
	Employers pensions contributions and direct payments to pensioners payable in the year	
(3,363)	actual employer's pension contributions for year	(3,466)
13	actual past service contributions for year	0
(329)	past service contributions for the year	(322)
92,460	**Balance at 31 March**	**80,900**

Note 27 Usable reserves

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

Certain reserves are kept in order to manage the accounting processes for non-current assets, financial instrument, retirement and employee benefits and do not represent usable resources for the Authority - these reserves are explained in the relevant policies.

Earmarked reserves are those set aside to be used for specific purposes.

Movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement.

Note 28 Unusable Reserves

31-Mar-21 £'000		31-Mar-22 £'000
73,777	Revaluation reserve	97,709
(28)	Financial instruments adjustment account	(25)
80,001	Capital adjustment account	82,718
(92,460)	Pensions reserve	(80,900)
(7,890)	Collection Fund Adjustment Account	(2,697)
(339)	Short Term Accumulating Compensated Absences Account	(339)
(2,364)	Pooled Investment Fund Adjustment Account	(939)
50,697		**95,527**

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority 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:

- Re-valued 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 April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the Capital Adjustment Account.

2020/21			2021/22	
£'000	£'000		£'000	£'000
	46,631	Balance at 1 April		73,780
29,646		Upward revaluation of assets	25,194	
(2,304)		Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the provision of services	(982)	
	27,342	Surplus or deficit on revaluation of non-current assets not posted to the surplus or deficit on the provision of services		24,212
	(186)	Difference between fair value depreciation and historical cost		(283)
	(10)	Disposals taken to revaluation reserve		
	73,777	**Balance at 31 March**		**97,709**

Financial Instruments Adjustment Account 23

The FIAA 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 Authority uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the CIES when they are incurred but reversed out of the General Fund Balance to the Account in the MIRS. 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 Authority'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 11 years.

2020/21		2021/22
£'000		£'000
(32)	balance at 1 April	(28)
4	Proportion of premiums incurred in the previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	3
(28)	**balance at 31 March**	**(25)**

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction, or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations 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 by the Authority as finance for the costs of acquisition, construction, and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1st April 2007, the date that the Revaluation Reserve was created to hold such gains.

2020/21 £'000			2021/22 £'000
81,424	Balance at 1 April		80,001
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement		
	Charges for depreciation and impairment of non-current assets		
(4,684)	depreciation – dwellings	(4,756)	
(191)	depreciation – other HRA	(259)	
(654)	depreciation – other general fund	(592)	
(1,422)	Revaluation losses on Property, Plant & Equipment	(1,028)	
(11)	Amortisation of intangible assets	(14)	
(96)	Revenue expenditure funded from capital under statute	(2,220)	
(3,124)	Amounts on non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(5,427)	
(34)	Expected Credit loss	42	
(10,216)			(14,254)
186	Adjusting amounts written out of the Revaluation Reserve		282
	Capital Financing Applied in the year		
1,452	Use of capital receipts reserve to finance new capital expenditure	1,818	
5,075	Use of major repairs reserve to finance new capital expenditure	5,015	
495	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	1,813	
1,143	Statutory provision for the financing of capital investment charged against the general fund and HRA balances	1,355	
5,670	Capital expenditure charged against the general fund and HRA balances	6,961	
13,835			16,962
(5,228)	Movements in the market value of investment properties debited or		(273)
80,001	**Balance at 31 March**		**82,718**

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Authority 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 Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2020/21 £'000		2021/22 £'000
	Balance at 1 April	
(70,640)	opening balance, share of fund deficit, start of year	(87,712)
(5,074)	unfunded liabilities start of year, Actuary's estimate	(4,748)
(14,976)	remeasurement gain/(loss)	15,210
	Reversal of items relating to retirement benefits debited or credited to the surplus or deficit on the provision of services in the Comprehensive Income & Expenditure Statement	
(3,670)	Current service cost for the year (Actuary's estimate)	(5,629)
(43)	Pensions administration cost	(51)
0	Liabilities/Settlements	53
(1,736)	Pensions interest cost (Actuary's estimate)	(1,811)
	Employers pensions contributions and direct payments to pensioners payable in the year	
3,363	Actual contributions paid over to the fund	3,466
(13)	Past service contributions for the year	0
329	Unfunded pension payments	322
(92,460)	**Balance at 31 March**	**(80,900)**

Collection Fund Adjustment Account

Council Tax

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

2020/21 £'000		2021/22 £'000
(67)	Balance at 1 April	(139)
(72)	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	538
(139)	**Balance at 31 March**	**399**

Business Rates

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

2020/21 £'000		2021/22 £'000
1,529	Balance at 1 April	(7,751)
(9,280)	Amount by which business rates income credited to the Comprehensive Income and Expenditure Statement is different from business rate retention income calculated for the year in accordance with statutory requirements	4,655
(7,751)	**Balance at 31 March**	**(3,096)**

The Government introduction of new business rates reliefs during the year has had the effect of putting the collection fund into a deficit position. The effect will be corrected during the next financial year.

Short-Term Accumulating Compensated Absences Account

The Accumulated Absences Account absorbs the difference 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 is neutralised by transfers to or from the Account.

2020/21 £'000			2021/22 £'000	
	(249)	Balance at 1 April		(339)
249		Settlement or cancellation of accrual made at the end of the preceding year	339	
(339)		Amounts accrued at the end of the current year	(339)	
	(90)	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		0
	(339)	**Balance at 31 March**		**(339)**

Pooled Investment Funds Adjustment Account

The Pooled Investment Funds Adjustment Account contains the gains made by the authority arising from increases in the value of its investments that are measured at fair value through profit and loss. The balance is reduced when investments with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- disposed of and the gains are realised.

2020/21 £'000		2021/22 £'000
(5,628)	Balance at 1 April	(2,364)
(33)	Downward revaluation of investments	(251)
3,297	Upward revaluation of investments	1,676
(2,364)	**Balance at 31 March**	**(939)**

Cashflow Notes

Note 29 Cash flow statement

The cash flows for Operating Activities include the following items:

2020/21 £'000		2021/22 £'000
(2,012)	Interest Paid	(2,084)
2,535	Interest Received	2,154
523		**70**

Other Notes

Note 30 Financial instruments

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

Financial Assets

A financial asset is a right to future economic benefits controlled by the authority that is represented by cash, equity instruments or a contractual right to receive cash or other financial assets or a right to exchange financial assets and liabilities, with another entity that is potentially favourable to the authority.

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. The authority's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument) and an equity investment elected to be classified at FVOCI.

Financial assets measured at amortised cost

These are recognised on the Balance Sheet when the authority 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 (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For the financial assets held by the authority, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

Expected Credit Loss Model - The authority recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12-month or lifetime basis. Only lifetime losses are recognised for trade receivables (debtors) held by the authority.

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

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

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

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

Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.

Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.

Level 3 inputs – unobservable inputs for the asset.

Equity Instrument elected to Fair Value through Other Comprehensive Income

The Authority has a 100% shareholding in Aspen Housing & Development Ltd and the authority has elected to treat this at fair value through other comprehensive income because it is a long-term strategic holding and changes in the fair value is not considered to be part of the Council's annual financial performance. No dividends were received during 2021/22 (2020/21 nil). The fair value of this asset is assumed to be cost as there is insufficient information available since the acquisition to measure fair value.

Financial Assets – balances

Fair Value Level	31-Mar-21 Long-Term £'000	31-Mar-21 Current £'000		Fair Value Level	31-Mar-22 Long-Term £'000	31-Mar-22 Current £'000
			Investments at amortised cost:			
	13,452	660	- principal element of loans advanced		13,176	685
	(70)	0	- loss allowance		(108)	0
			At fair value through other comprehensive income			
3	695	0	- equity investments elected FVOCI		695	0
			At fair value through profit & loss			
1	28,634	0	- fair value of pooled funds		30,061	0
	42,711	**660**	**Total investments**		**43,824**	**685**
			Cash & cash equivalents at fair value through profit & loss:			
	0	6,226	- fair value of money market funds		0	5,757
	0	**6,226**	**Total cash & cash equivalents**		**0**	**5,757**
			Debtors at amortised cost:			
	428	4,754	- trade receivables		34	4,817
	(80)	(1,203)	- loss allowance		0	(803)
	0	*18,414*	*Debtors that are not financial instruments*		*0*	*9,297*
	348	**21,965**	**Total Debtors - see note 19**		34	13,311
	43,059	**10,437**	**Total Financial Assets**		**43,858**	**10,456**

Financial assets that are not measured at fair value

Some financial assets are carried in the Balance Sheet at amortised cost.

Fair value information has not been disclosed for these instruments, as it cannot be measured reliably due to the limited market for these assets:

- Investments - loans advanced – although these are held to collect cash flows, they also serve a local need which other investors would not take into account
- Investments - cash and cash equivalents – these are due to mature within the next few months and the holding amount is assumed to approximate fair value. Due to their short-term nature there is no market to sell these on before maturity
- Debtors – trade receivables – these are held at invoiced amount which is assumed to approximate to fair value as there is deemed to be no market for these.

Financial Liabilities

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

Financial liabilities are recognised on the Balance Sheet when the authority 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 (CIES) 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 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 authority 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 Liabilities – balances

31-Mar-21 Long-Term £'000	31-Mar-21 Current £'000		31-Mar-22 Long-Term £'000	31-Mar-22 Current £'000
		Loans at amortised cost:		
61,059	40,000	- principal sum borrowed	71,353	31,706
0	414	- accrued interest	0	301
61,059	**40,414**	**Total Loans**	**71,353**	**32,007**
		Cash & cash equivalents at amortised cost:		
0	527	- principal	0	1,072
0	**527**	**Total Cash & Cash Equivalents**	**0**	**1,072**
		Creditors at amortised cost:		
0	3,779	- trade payables	0	3,167
0	*34,390*	*creditors that are not financial instruments*	*0*	*32,072*
0	**38,169**	**Total Creditors - see note 23**	**0**	**35,239**
61,059	**44,720**	**Total Financial Liabilities**	**71,353**	**36,246**

Financial liabilities that are not measured at fair value

Financial liabilities 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*:*

The fair values are calculated as follows:

31-Mar-21 Carrying amount £'000	31-Mar-21 Fair value £'000		31-Mar-22 Carrying amount £'000	31-Mar-22 Fair value £'000
61,059	67,365	Loans - PWLB	71,353	71,670
3,779	3,779	Creditors	3,167	3,167

The fair value of creditors is assumed to be the invoiced amount as there is deemed to be no market for these.

Fair value hierarchy for financial liabilities that are not measured at fair value

PWLB loans	Level 2	Other significant observable inputs

The fair values of PWLB loans have been calculated by discounting the instruments' contractual cash flows at an estimated market rate for local authority borrowing on the same remaining term to maturity. The choice of an appropriate discount rate is the key assumption, and this has the greatest impact on the estimated fair values provided and we have used the market rate which is linked to the prevailing Swap rate.

Financial instruments gains and losses

2020/21 Amortised cost £'000	2020/21 Fair Value through Profit & Loss £'000	2020/21 Total £'000	Financial Assets held at:	2021/22 Amortised cost £'000	2021/22 Fair Value through Profit & Loss £'000	2021/22 Total £'000
0	(3,264)	**(3,264)**	Loss/(gain) from changes in fair value	0	(1,425)	**(1,425)**
16	0	**16**	Loss allowances	38	0	**38**
16	**(3,264)**	**(3,248)**	**Net impact on CIES**	**38**	**(1,425)**	**(1,387)**
(16)	0	**(16)**	Loss trf to Capital Adjustment Account	(38)	0	**(38)**
0	3,264	**3,264**	(Loss)/gain allowance trf to Pooled Investment Fund Adj Account	0	1,425	**1,425**
0	**0**	**0**	**Net Gain/(Loss) for the year**	**0**	**0**	**0**

Note 31 Nature and extent of risk arising from financial instruments

Financial Instruments - Risks

The Council complies with CIPFA's Code of Practice on Treasury Management and Prudential Code for Capital Finance in Local Authorities, both revised in December 2021.

In line with the Treasury Management Code, the Council approves a Treasury Management Strategy before the commencement of each financial year. The Strategy sets out the parameters for the management of risks associated with financial instruments. The Council also produces Treasury Management Practices specifying the practical arrangements to be followed to manage these risks.

The Treasury Management Strategy includes an Investment Strategy in compliance with the Ministry for Housing, Communities and Local Government Guidance on Local Government Investments. This Guidance emphasises that priority is to be given to security and liquidity, rather than yield. The Council's Treasury Management Strategy and its Treasury Management Practices seek to achieve a suitable balance between risk and return or cost.

The main risks covered are:

- *Credit Risk:* The possibility that the counterparty to a financial asset will fail to meet its contractual obligations, causing a loss to the Council.

- *Liquidity Risk:* The possibility that the Council might not have the cash available to make contracted payments on time.

- *Market Risk:* The possibility that an unplanned financial loss will materialise because of changes in market variables such as interest rates or equity prices.

Credit Risk: Treasury Investments

The Council manages treasury credit risk by ensuring that treasury investments are only placed with organisations of high credit quality as set out in the Treasury Management Strategy. These include commercial entities with a minimum long-term credit rating of A-, the UK government, other local authorities, and organisations without credit ratings upon which the Council has received independent investment advice. Recognising that credit ratings are imperfect predictors of default; the Council has regard to other measures including credit default swap and equity prices when selecting commercial entities for investment.

A limit of £8m of the total portfolio is placed on the amount of money that can be invested with a single counterparty that is subject to credit risk (other than the UK government). The Council also sets limits on investments in certain sectors. No more than £10m in total can be invested for a period longer than one year.

All investments are now kept in AAA rated money market funds so are no longer exposed to credit risk.

Credit Risk: Trade Receivables

The following analysis summarises the Council's trade receivables, by due date. Only those receivables meeting the definition of a financial asset are included.

31-Mar-21 £'000		31-Mar-22 £'000
2,727	Less than three months old	3,084
317	Three to six months old	510
688	Six months to one year old	380
1,022	More than one year old	843
4,754		**4,817**

Loss allowances on trade receivables and contract assets have been calculated by reference to the Council's historic experience of default. Receivables are determined to have suffered a significant increase in credit risk where they are 30 or more days past due.

Credit Risk: Loans

In furtherance of the council's objectives, it has lent money to several entities. The amounts recognised on the balance sheet, and the council's total exposure to credit risk from these instruments are:

Balance Sheet 31-Mar-21 £'000	Category of borrower	Exposure Type	Balance Sheet 31-Mar-21 £'000
8,549	Local Businesses	Loan at market rate	8,298
3,322	Local Charities	Loan at market rate	3,387
230	Parish Councils	Loan at market rate	173
1,350	Subsidiaries	Loan at market rate	1,318
13,451			**13,176**

The council manages the credit risk inherent in its loans, in line with its published investment strategy and loans are all secured against property. To date no loans have been written off or are subject to enforcement action.

Liquidity Risk

The Council has ready access to borrowing at favourable rates from the Public Works Loan Board and other local authorities, and at higher rates from banks and building societies. There is no perceived risk that the Council will be unable to raise finance to meet its commitments. It is however exposed to the risk that it will need to refinance a significant proportion of its borrowing at a time of unfavourably high interest rates. This risk is managed by maintaining a spread of fixed rate loans to ensure that not all borrowing matures in one financial year.

The maturity analysis of financial liabilities is as follows:

31-Mar-21 £'000		31-Mar-22 £'000
40,000	Less than one year	31,706
4,706	Between one and two years	15,187
16,914	Between two and five years	23,314
26,939	Between five and ten years	20,352
12,500	More than ten years	12,500
101,059		**103,059**

All trade and other payables are due to be paid in less than one year and are not included in the table above.

Market Risks: Interest Rate Risk

The Authority is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the authority. For instance, a rise in interest rates would have the following effects:

- Borrowings at variable rates – the interest expense will rise
- Borrowings at fixed rates – the fair value of the liabilities will fall
- Investments at variable rates – the interest income will rise
- Investments at fixed rates – the fair value of the assets will fall

Investments measured at amortised cost and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services. Movements in the fair value of fixed rate investments measured at fair value will be reflected in Other Comprehensive Income and Expenditure or the Surplus or Deficit on the Provision of Services as appropriate.

The Treasury Management Strategy aims to mitigate these risks by setting upper limits on its net exposures to fixed and variable interest rates.

The approximate impact of a 1% rise in interest rates would be:

2020/21 £'000		2021/22 £'000
144	Increase in interest received on variable rate investments - money market funds	111
9	Increase in dividend received on variable rate investments - pooled funds	14
(201)	Decrease in fair value of investments held at FVPL	(203)
(48)		**(78)**

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed.

Market Risks: Price Risk

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

The Council's investment in a pooled property fund is subject to the risk of falling commercial property prices. This risk is limited by the Council's maximum exposure to property investment funds of £8m excluding diversified funds with an equity element. A 5% fall in commercial property prices at 31st March 2022 would result in a £0.303m (2021: £0.262m) charge to the Surplus or Deficit on the Provision of Services which is then transferred to the Pooled Investment Funds Adjustment Account.

The Council's investment in a pooled equity fund is subject to the risk of falling share prices. This risk is limited by the Council's maximum exposure to equity investments of £16m excluding diversified funds with an equity element. A 5% fall in share prices at 31st March 2022 would result in a £804m (2021: £0.708m) charge to the Surplus or Deficit on the Provision of Services which is then transferred to the Pooled Investment Funds Adjustment Account.

Foreign Exchange Risk

The Authority has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

Note 32 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.

Operating leases

The Authority as Lessee

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from its use.

The Authority has replaced its two electric cars by entering into new operating leases, with typical lives of four years. The future minimum lease payments due under non-cancellable leases in future years are:

31-Mar-21 £'000		31-Mar-22 £'000
6	Not later than one year	6
13	Later than one year and not later than five years	8
0	Later than five years	0
19		**14**

The expenditure is charged to the Legal & Procurement & Human Resources line in the Comprehensive Income and Expenditure Statement during the year in relation to these leases.

The Authority as Lessor

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

The properties held under operating leases are mainly investment properties. All leases are negotiated on an individual basis and all allow for rent reviews to take place at regular intervals. The authority holds investment properties both on HRA and general fund land. Many of these properties were originally developed to provide facilities on residential estates. We have also undergone a programme to encourage sharing of our office space and have let some operating leases on these properties.

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

31-Mar-21 £'000		31-Mar-22 £'000
3,343	not later than one year	3,216
13,133	later than one year and not later than five years	12,548
14,488	later than five years	10,493
30,964		**26,257**

Where leases are being held over or are due to expire future lease rentals have not been included. We have no contingent rents.

Finance Leases

The authority as a lessor

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

Lease rentals 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 Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

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

We currently hold several properties which we lease out on finance leases. These are leased at peppercorn or low value rents. These properties are not reflected on our balance sheet.

Note 33 Members allowances

The Authority paid the following amounts to members of the council during the year.

2020/21 £'000		2021/22 £'000
406	Allowances	424
5	Expenses	7
411		**431**

Note 34 Officers remuneration

a) Individual disclosure for senior employees whose salary was £50,000 or more is as follows:

2021/22

Job Title	Salary £	Taxable Benefits P11D £	Total Remuneration £	Pension Contribution £	Total inc Pension £
Chief Executive	122,068	0	**122,068**	23,019	**145,087**
Deputy Chief Executive	106,235	1,242	**107,477**	20,033	**127,510**
Strategic Director & Section 151 Officer	88,030	0	**88,030**	16,498	**104,528**
Assistant Directors:					
Local Government Restructure	71,598	0	**71,598**	13,114	**84,712**
Unitary Service Integration	71,598	0	**71,598**	9,604	**81,202**
Customer Access	71,598	0	**71,598**	13,422	**85,020**
Environment & Regulation	71,598	0	**71,598**	13,419	**85,017**
Finance & Property	51,865	0	**51,865**	10,146	**62,011**
Housing, Health & Wellbeing	71,598	0	**71,598**	13,419	**85,017**
Inward Investment & Growth	69,968	0	**69,968**	12,471	**82,439**
Legal & Governance	55,376	0	**55,376**	10,380	**65,756**
	851,532	**1,242**	**852,774**	**155,525**	**1,008,299**

The Strategic Director & Section 151 Officer was appointed on 19th April 2021 – full year salary would have been £88,895.

The Interim Assistant Director Finance and Property was appointed on 1st December 2021 – full year salary would have been £66,723. The salary above includes salary of previous role for April to November 2021.

The Assistant Director Legal & Governance was appointed to a new post of Assistant Director Local Government Restructure on 1st December 2021. There was no salary change.

The Interim Assistant Director L&G was appointed on 1st December 2021 – full year salary would have been £66,723.

The Assistant Director Environment & Regulation was appointed to a new post of Assistant Director Unitary Service Integration on 1st June 2021. There was no salary change.

The Interim Assistant Director Environment & Regulation was appointed on 1st June 2021 – full year salary would have been £66,723. The salary above includes salary of previous role for April to November 2021.

2020/21

Job Title	Salary	Taxable Benefits P11D	Total Remuneration	Pension Contribution	Total inc Pension
	£	£	£	£	£
Chief Executive *	126,143	0	**126,143**	23,588	**149,731**
Strategic Director /Acting Chief Executive**	97,643	0	**97,643**	18,259	**115,902**
Strategic Director /Deputy Chief Executive***	95,016	1,241	**96,257**	17,768	**114,025**
Assistant Directors:					
Customer Access	68,765	0	**68,765**	12,859	**81,624**
Environment & Regulation	70,367	0	**70,367**	13,159	**83,526**
Finance & Property	70,367	0	**70,367**	13,159	**83,526**
Housing, Health & Wellbeing	70,367	0	**70,367**	13,159	**83,526**
Inward Investment & Growth	67,170	0	**67,170**	12,560	**79,730**
Legal & Governance	70,367	0	**70,367**	13,159	**83,526**
	736,205	**1,241**	**737,446**	**137,670**	**875,116**

* The Chief Executive left on 31st March 2021
** The Strategic Director took over as Acting Chief Executive from 29th January 2021 until 31st March 2021 (overlap to cover handover period and leave) – full year salary would have been £117,591.

*** The Strategic Director was appointed to a new post of Deputy Chief Executive from 1st February 2021 – full year salary would have been £103,000.

b) The authority's *other* employees receiving more than £50,000 remuneration for the year (excluding employer's pension costs) were paid the following amounts:

2020/21 number of employees	remuneration band	2021/22 number of employees
4	£50,000 to £54,999	4
0	£55,000 to £59,999	0
0	£60,000 to £64,999	0
0	£65,000 to £69,999	0
1	£70,000 to £74,999	1
0	£100,000 to £104,999	0

Note 35 Termination benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date, or an officer's decision to accept voluntary redundancy, and are charged on an accruals basis to the Non-Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making 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 authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

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

(a) Exit package cost band (including special payments)	(b) Number of Compulsory redundancies		(c) Number of other departures agreed		(d) Total number of exit packages by cost band [(b)+(c)]		(e) Total cost of exit packages in each band	
	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22
£0-£20,000	0	0	0	1	0	1	0	7,326
£20,001 - £60,000	1	0	2	0	3	0	78,721	0
£60,001 - £100,000	1	0	0	0	1	0	88,090	0
Total	**2**	**0**	**2**	**1**	**4**	**1**	**166,811**	**7,326**

Note 36 External audit costs

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

2020/21 £'000		2021/22 £'000
42	Fees payable to Grant Thornton with regard to external audit services carried out by the appointed auditor for the year	47
28	Fees payable to Grant Thornton for the certification of grant claims and returns for the year	22
0	Refund from Public Sector Audit Appointments	
70	**TOTAL**	**69**

Note 37 Government grants and contributions

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

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

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

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

Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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

Community Infrastructure Levy

The Authority has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments for the Authority) with appropriate planning consent. The Council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects (these include transport, flood defences and schools) to support the development of the area.
CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure. However, a small proportion of the charges may be used to fund revenue expenditure.

Covid 19 Emergency Funding

As part of the government's response to the Covid 19 pandemic, they announced a package of grants to help local government fund expenditure related to Covid 19 and also a range of grants to help businesses. The grant schemes to support businesses were administered by local billing authorities.

The Council has acted as agent for payment of many of these grants. These are not credited to the Comprehensive Income and Expenditure Statement, but the balance of unpaid funds held on behalf of the Department for Business, Energy & Industrial Strategy at the year end are held on our Balance Sheet as a creditor.

Therefore, only schemes where the authority was acting as principal are included in this note. This is essentially where the authority was required to determine eligibility for the grant and the amounts paid.

The Authority credited the following grants, contributions, and donations to the Comprehensive Income and Expenditure Statement.

2020/21 £'000		2021/22 £'000
	Credited to Taxation and Non Specific Grant Income	
3,553	DLUHC Business Rates Baseline funding	3,553
20	DLUHC Revenue Support Grant	21
0	DLUHC Lower Teir Grant	151
2,166	DLUHC Business Rates Retention	1,491
1,536	DLUHC New Homes Bonus	1,063
495	Capital Grants	1,813
1,086	Community Infrastructure Levy	2,724
	Covid related	
7,796	DLUHC Business Rates Additional Reliefs	3,383
604	DLUHC Covid Sales Fess & Charges compensation	44
81	DLUHC Council Tax Income Guarantee	0
17,337	**Total Credited to Taxation and Non Specific Grant Income**	**14,243**
	Credited to Services	
18,844	DWP Housing Benefits	17,791
143	DWP Housing Benefits, Other	157
0	DWP Other	11
46	DLUHC/DWP New burdens	48
556	DLUHC Homelessness	855
71	DLUHC Other	262
120	DLUHC Local council tax support administration	128
373	DLUHC Grants paid for disabled adaptations	905
9	Other Government grants	1
	Covid related	
2,032	DLUHC Covid	1,006
437	DLUHC Covid New Burdens	172
834	DLUHC Council Tax Hardship fund	174
11	DWP Covid	0
1,839	BIES Additional Restrictions Grant	2,803
1,567	BIES Local Authority Discretionary Grant Fund	0
280	BIES Local Restrictions Support Grant Open	23
201	DHSC Test & Trace	498
27,363	**Total Credited to Services**	**24,834**
44,700	**Total Grant Income**	**39,077**

DLUHC = Department of Levelling Up Housing & Communities
DWP = Department for Work and Pensions
BIES = Department for Business, Energy and Industrial Strategy
DHSC = Department of Health and Social Care

Capital Grants – receipts in advance

The Authority has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that may require the monies or property to be returned. The balances at the year-end are shown in the Balance Sheet note **Capital Grants Receipts in Advance**.

Note 38 Related parties

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

Central Government

Central government has effective control over the general operations of the Authority – it is responsible for providing the statutory framework within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in note **Government grants and contributions.**

Members

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 **Members allowances**. In addition, the Grants Award Sub Committee paid grants totalling £3,500 to voluntary organisations in which members had positions on the governing body or were a member of the organisation. Additional grants and contributions totalling £467,584 were made to organisations in which members had positions on the governing body or were a member. In all instances, the grants/contributions were made with proper consideration of declarations of interest. The relevant members did not take part in any discussion or decision relating to grants. Details of all these transactions are recorded in the Register of Members' Interest, open to public inspection at Bridgwater House during office hours.

Other Public Bodies (subject to common control by central government)

The Council also appoints members to serve on internal drainage boards – 4 members serve on the 2 boards within the district (both boards charged levies, totalling £1,674,409).
Some members are also members of other public bodies within the area – 7 sit on Somerset County Council, 8 on Bridgwater Town Council, 5 on Burnham and Highbridge Town Council and 12 on other Town and Parish Councils. These bodies precept on the District Council for a share of the revenue raised from Council Tax.

After a period of close partnership working, the Waste Collection Authorities and the Waste Disposal Authority within Somerset set up the Somerset Waste Partnership and delegated to it a number of their waste authority functions. The Somerset Waste Partnership is governed by the Somerset Waste Board, comprising 2 elected councillors from each of the 6 partner authorities. The Board is a formal Joint Committee established under section 101 of the Local Government Act 1972. The total cost to Sedgemoor of the waste contract for 2021/22 was £3.379 million.

Entities Controlled or Significantly Influenced by the Authority

Homes in Sedgemoor Ltd

Three members are appointed to the Homes in Sedgemoor Ltd Board. The management fee paid to the ALMO in 2021/22 was £9.126 million (2020/21: £8.180 million). £1.210 million was received from Homes in Sedgemoor Ltd for support services provided (2020/21: £1.095 million).

Sedgemoor Group Ltd

The two directors of Sedgemoor District Council and the Chief Executive are appointed as directors of Sedgemoor Group Ltd. In 2016 equity of £695,000 was invested by this authority in Sedgemoor Group Ltd.

Aspen Housing & Development Ltd

The Sedgemoor District Council Chief Executive Officer, Deputy Chief Executive Officer and the Democratic & Performance Services Manager are appointed as directors of Aspen Housing & Development Ltd. In 2016 a loan of £1.105m was made to Aspen Housing & Development Ltd to purchase Aspen Court. Additional loans totalling £147,000 in 2018/19 and £102,500 in 2019/20 were advanced to enable the purchase and refurbishment of additional leasehold flats within the building.

SWAP Internal Audit Services Ltd

Sedgemoor District Council is a Member of SWAP which is a company limited by guarantee and is wholly owned and controlled by the members as an in-house company and is a local authority controlled company for the purposes of Part V of the Local Government and Housing Act 1989. The liability of each member is limited to £1, being the amount that each member undertakes to contribute to the assets of the Company in the event of it being wound up while he is a member or within one year after he ceases to be a member.

Senior Employees

Twelve senior employees are also requested to declare any connections with related parties. These relationships have been considered and there are none of a significant value.

Note 39 Capital expenditure and capital financing

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

2020/21 £'000		2021/22 £'000	2021/22 £'000
116,393	**Opening Capital Financing Requirement**		**128,161**
0	Opening balance Adjustment		**(41)**
116,393	**Adjusted Opening Capital Financing Requirement**		**128,120**
	Capital Investment		
15,376	Property Plant & Equipment	26,437	
10,238	Investment Properties	0	
96	Revenue expenditure funded from capital under statute	2,220	
355	Service loans to organisations	596	
26,065			**29,253**
	Sources of finance		
(1,452)	Capital receipts	(1,818)	
(496)	Government grants & other contributions	(1,813)	
(5,075)	Major repairs reserve	(5,015)	
	Sums set aside from revenue		
(5,669)	Direct revenue contributions	(6,961)	
(1,143)	MRP contributions charged to revenue	(1,355)	
(462)	MRP contributions matched by loan repayments received	(824)	
(14,297)			**(17,786)**
128,161	**Closing Capital Financing Requirement**		**139,587**
	Explanation of movements in year		
11,768	Increase/(Reduction) in underlying need to borrow (unsupported by government financial assistance) *		11,467
11,768	**Increase/(Reduction) in Capital Financing Requirement**		**11,467**

* During 2021/22 the Northgate yard project started and is due to finish in 2022/23, this project is funded from prudential borrowing which has resulted in an increase in the CFR. There were no material purchases of investment property in 2021/22 (two material purchases of investment property were made during 2020/21 totalling £10m, these purchases were capital expenditure funded by prudential borrowing, resulting in an increase in the CFR in 2020/21).

Note 40 Defined benefit pension scheme

Post Employment Benefits

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

The liabilities of the Somerset County Council pension fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projected earnings for current employees.

Liabilities are discounted to their value at current prices using a discount rate of 2.6% (The discount rate is the yield on the iBoxx AA rated over 15 year corporate bond index as at this date which has been chosen to meet the requirements of IAS19. The price increases and pension increases assumptions are based on the unadjusted difference between conventional gilt yields and index-linked gilt yields at the accounting date using data published by the Bank of England.)
The assets of the Somerset County Council scheme attributable to Sedgemoor 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; and
Property – market value.

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

Service cost – this comprises the current service cost which is the increase in liabilities as a result of years of service earned this year – allocated in the Income and Expenditure Account to the revenue accounts of services for which the employees worked, the Past service cost which is the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs, and Gains/losses on curtailment which is the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs;

Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid, the annual investment return on the fund assets attributable to the Authority and expected return on assets based on an average of the expected long-term return – the net amount is debited to Net Operating Expenditure in the Income and Expenditure Account;

Administration – this is accounted for in the profit and loss charge:

Remeasurement of the defined benefit liability/asset – 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 – debited to the Other Comprehensive Income and Expenditure;

The change in financial assumptions reflects a increase in the discount rate from 2.0% to 2.6%. The discount rate is based on corporate bond yields that match the duration of the employers liabilities. Although the yields have been volatile they have decreased overall which indicates an increase in liabilities.

Contributions paid to the Somerset County Council pension fund – cash paid as employer’s contributions to the pension fund.

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

Discretionary Benefits

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

Participation in pension schemes

As part of the terms and conditions of employment of its officers, the authority makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the authority has a commitment to make the payments (for those benefits) and to disclose them at the time that employees earn their full entitlement.

The Council participates in the Local Government Pension Scheme, which is a funded defined benefit scheme based on final pensionable salary. The administering authority is Somerset County Council. The most recent actuarial valuation was carried out as at 31st March 2022 and has been updated by the independent Actuary to the Pension Fund to take account of the requirements of IAS19, Retirement Benefits (as amended), in order to assess the liabilities of the fund as at 31st March 2022.

This is a funded defined benefit final salary scheme, meaning that the authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

Liabilities are valued on an actuarial basis using the projected unit method, which assesses the future liabilities discounted to their present value.

Transactions relating to post employment benefits

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 we are required to make against council tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

Comprehensive Income and Expenditure Account

2020/21 £'000			2021/22 £'000
	Cost of Services		
3,670	Current service cost		5,629
13	Curtailments		0
0	Liabilities/Settlements		(53)
43	Administration Cost		51
	Financing and Investment Income & Expenditure		
1,736	Net Interest Expense		1,811
5,462	**Total post employment benefit charged to the surplus or deficit on the provision of services**		**7,438**
	Other post employment benefit charged to the Comprehensive Income & Expenditure Statement		
	Remeasurement of the net defined benefit liability comprising		
(20,079)	*	Return on plan assets (excluding the amount included in the net interest payable)	(7,360)
(1,731)	*	Remeasurement (gains) and losses arising on changes in demographic assumptions	0
38,769	*	Remeasurement (gains) and losses arising on changes in financial assumptions	(8,302)
(1,983)	*	Other changes	452
20,438	**Total post employment benefit charged to the Comprehensive Income & Expenditure Statement**		**(7,772)**
	Movement in Reserves Statement		
(5,462)	Reversal of net charges made to the surplus or deficit for the provision of services for post employment benefits in accordance with the code		(7,438)
	Actual amount charged against the General Fund Balance for pensions in the year:		
3,363	Employers' contributions payable to the scheme		3,466
329	Retirement Benefits paid to pensioners		322

The cumulative amount of remeasurement gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31st March 2022 is a loss of £24,181,000.

Pensions Assets and Liabilities Recognised in the Balance Sheet

The amounts recognised in the Balance Sheet arising from the authority's obligation of its defined benefit plan is as follows:-

31-Mar-21 £'000		31-Mar-22 £'000
188,181	Present value of funded obligations	185,228
(100,795)	Fair value of plan assets (bid value)	(109,076)
5,074	Present value of unfunded obligations	4,748
92,460	**Net liability recognised in the Balance Sheet**	**80,900**

Reconciliation of the movements in the Fair Value of the scheme assets

2020/21 £'000		2021/22 £'000
79,815	**Balance at 1 April**	**100,795**
1,865	Expected rate of return	2,005
20,079	Remeasurement gain/(loss)	7,360
0	Settlement	(56)
3,692	Employer contributions	3,788
682	Contributions by scheme participants	714
(43)	Administration expenses	(51)
(5,295)	Benefits paid	(5,479)
100,795	**Balance at 31 March**	**109,076**

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed asset investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

Reconciliation of the movements in the Fair Value of the scheme liabilities

2020/21 £'000		2021/22 £'000
155,529	**Balance at 1 April**	**193,255**
3,670	Current service cost	5,629
3,601	Interest cost	3,816
13	Curtailments	0
0	Liabilities	(109)
682	Contributions by scheme participants	714
35,055	Remeasurement Loss/(gain)	(7,850)
(4,966)	Benefits paid	(5,157)
(329)	Unfunded pension payments	(322)
193,255	**Balance at 31 March**	**189,976**

Constitution of the fair value of the scheme assets

Assets are valued as fair value, principally market value for investments, and comprise:

31-Mar-21 %	31-Mar-21 £'000		31-Mar-22 %	31-Mar-22 £'000
6	5,790	Government Securities	72	78,639
10	9,765	Corporate Bonds	5	5,806
71	72,484	Equities	10	10,862
7	6,965	Property	8	8,793
6	5,791	Cash	5	4,976
0	0	Others	0	0
100	**100,795**	**Total**	**100**	**109,076**

Local government pension scheme assets comprised

31-Mar-21	Fair value of scheme assets	31-Mar-22		
		Quoted	Unquoted	Total
£'000		£'000	£'000	£'000
	Fixed Interest Government Securities			
2,114	UK	0	2,534	**2,534**
0	Overseas	0	0	**0**
	Index Linked Government Securities			
2,114	UK	0	3,272	**3,272**
76	Overseas	0	0	**0**
	Corporate Bonds			
3,549	UK	0	7,590	**7,590**
3,776	Overseas	0	3,272	**3,272**
	Equities			
13,215	UK	0	19,634	**19,634**
39,192	Overseas	0	55,733	**55,733**
	Property			
5,211	All	0	8,793	**8,793**
	Others			
1,963	Private Equity	0	3,272	**3,272**
0	Derivatives	0	0	**0**
4,304	Cash/Temporary Investments	0	4,976	**4,976**
75,515	**Total**	**0**	**109,076**	**109,076**

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent upon assumptions about mortality rates, salary levels, etc. The pension scheme liabilities have been assessed by Barnett Waddingham, an independent firm of actuaries. Estimates for the fund being based on the latest full valuation of the scheme as at 31st March 2022.

The discount rates are based on the annualised yield on the iBoxx over 15 year AA-rated corporate bond index at the relevant date, except for the discount rate for scheme liabilities at 31st March 2004 which is based on the rate determined by the Government Actuary.

The expected return on assets is based on the long term future expected investment return for each class of asset at the beginning of the period (i.e. as at 1st April 2021 for the year to 31st March 2022). The returns on gilts and other bonds are assumed to be the gilt yield and corporate bond yield (with an adjustment to reflect default risk) respectively at the relevant date. The return on equities and property is then assumed to be a margin above gilt yields.

The principal assumptions used by the actuary have been:

Mortality assumptions

31-Mar-21		31-Mar-22
	Longevity at 65 for current pensioners:	
23.1 years	Men	23.1 years
24.6 years	Women	24.7 years
	Longevity at 65 for future pensioners;	
24.4 years	Men	24.4 years
26.0 years	Women	26.1 years

Long-term expected rate of return on assets in the scheme

31-Mar-21		31-Mar-22
2.0% pa	Discount Rate	2.6% pa
2.8% pa	Pension Increases	3.2% pa
3.8% pa	Salary Increases	4.2% pa

Sensitivity Analysis of possible changes

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analyses changes while all other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

Sensitivity analysis	**£'000**	**£'000**	**£'000**
Adjustment to discount rate	**+0.1%**	**0.0%**	**-0.1%**
Present value of total obligation	186,489	189,976	193,532
Projected service cost	4,974	5,141	5,312
Adjustment to long term salary increase	**+0.1%**	**0.0%**	**-0.1%**
Present value of total obligation	190,333	189,976	189,622
Projected service cost	5,143	5,141	5,138
Adjustment to pension increases and deferred revaluation	**+0.1%**	**0.0%**	**-0.1%**
Present value of total obligation	193,151	189,976	186,859
Projected service cost	5,311	5,141	4,976
Adjustment to life expectancy assumptions	**+1 year**	**none**	**-1 year**
Present value of total obligation	198,951	189,976	181,433
Projected service cost	5,354	5,141	4,934

Impact on the Authority's Cashflow

The objectives of the scheme are to keep employers contributions at as constant a rate as possible. The County Council has agreed a strategy with the schemes actuary to achieve a funding level of 100% over the next three years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31st March 2023. 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 main existing public service schemes may not provide benefits in relation to service after 31st March 2022. 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.

The Authority is anticipated to pay £3,516,000 expected contributions to the scheme in 2022/23.

Housing Revenue Account Comprehensive Income and Expenditure Statement

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with the legislative framework; this may be different from the accounting cost. The increase or decrease in the year, on the basis upon which rents are raised, is shown in the Movement on the Housing Revenue Account Statement.

2020/21 £'000		2021/22 £'000	note
	Expenditure		
3,559	Repairs and maintenance	3,887	
5,221	Supervision and management	5,611	
125	Rents, rates and taxes and other charges	388	
4,875	Depreciation, impairment and revaluation of non-current assets	5,015	1
5	Movement in the allowance for bad debts, increase	7	
13,785	**Total Expenditure**	**14,908**	
	Income		
(16,058)	Dwelling rents	(16,414)	2
(556)	Non-dwelling rents	(582)	
(1,085)	Charges for services and facilities	(1,315)	
(64)	Leaseholders' charges for services and facilities	(70)	
(161)	Contributions towards expenditure	(162)	
(308)	Other income	(1,024)	
(29)	Movement in the allowance for bad debts, decrease	(17)	3
(18,261)	**Total Income**	**(19,584)**	
(4,476)	**Net cost of HRA services as included in the Comprehensive Income & Expenditure Statement**	**(4,676)**	
295	HRA services share of corporate & democratic core	193	
(4,181)	**Net cost of HRA services**	**(4,483)**	
1,539	Interest payable and similar charges	1,752	
(396)	Interest and investment income	(217)	
	Items reversed in Movement in Reserves		
1,275	Gain/(loss) on sale of HRA non current assets	2,606	
0	Capital grant	(150)	
138	Changes in Fair Value on Investment Properties	20	
(1,625)	**(Surplus)/Deficit for the year on HRA services**	**(472)**	

Movement in Reserves on the Housing Revenue Account

For the year ended 31 March 2022	Housing Revenue Account £'000	Earmarked HRA Reserves £'000	Total Useable Reserves £'000
Balance at 31 March 2021	**11,572**	**0**	**11,572**
Movement in reserves during 2021/22			
Surplus or (deficit) for the year on the HRA Income and Expenditure Statement	472	0	**472**
Adjustments between accounting basis and funding basis under statute	(2,695)	0	**(2,695)**
Increase/(Decrease) in year on the HRA	**(2,223)**	**0**	**(2,223)**
Balance at 31 March 2022 carried forward	**9,349**	**0**	**9,349**

For the year ended 31 March 2021	Housing Revenue Account £'000	Earmarked HRA Reserves £'000	Total Useable Reserves £'000
Balance at 31 March 2020	**13,606**	**0**	**13,606**
Movement in reserves during 2020/21			
Surplus or (deficit) for the year on the HRA Income and Expenditure Statement	1,625	0	**1,625**
Adjustments between accounting basis and funding basis under statute	(3,659)	0	**(3,659)**
Increase/(Decrease) in year on the HRA	**(2,034)**	**0**	**(2,034)**
Balance at 31 March 2021 carried forward	**11,572**	**0**	**11,572**

Note 1 Depreciation, impairment & revaluation losses of non current assets

All HRA assets have been depreciated over their expected lives on a straight-line basis.

2020/21 £'000		2021/22 £'000
	Depreciation:	
4,684	Dwellings	4,756
191	Block garages	259
4,875	**TOTAL**	**5,015**

Note 2 Dwelling Rents

2020/21 £'000		2021/22 £'000
16,342	Gross rents due	16,673
(224)	Less voids	(232)
(60)	Write-offs	(27)
16,058	**Net rent due (before rebates)**	**16,414**

Note 3 Bad or Doubtful Debts

2020/21 £'000		2021/22 £'000
	Bad debt provision, unpaid rents	
127	Balance at 1 April	98
(29)	Movement in provision	(17)
98	**Balance at 31 March**	**81**
304	Arrears at year end	295
32%	Provision as percentage of arrears	27%
	Bad debt provision, other debts	
2	Balance at 1 April	6
4	Movement in provision	8
6	**Balance at 31 March**	**14**
(25)	**Net movement in provision**	**(9)**

Note 4 Adjustments Between Accounting Basis and Funding Basis Under Regulations

2020/21 £'000		2021/22 £'000
	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	
8,137	Reversal of entries included in the surplus or deficit on the provision of services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	10,301
8,137	**Total Adjustments to Revenue Resources**	**10,301**
	Adjustments between Revenue & Capital Reserves	
	Capital Receipts Reserve	
(1,849)	Transfer of cash proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(2,810)
	Major Repairs Reserve	
(4,875)	Reversal of notional Major Repairs Allowance	(5,015)
	Capital Adjustment Account	
(5,072)	Capital expenditure charged against the HRA Balance	(5,171)
(11,796)	**Total Adjustments between Revenue & Capital Reserves**	**(12,996)**
(3,659)		**(2,695)**

Note 5 ALMO Management Fee Analysis

2020/21 £'000		2021/22 £'000
	Income	
288	Other income	996
288	**Total income**	**996**
	Expenditure	
3,530	Repairs & maintenance	3,872
2,745	Supervision & management general	3,941
1,894	Supervision & management special services	1,047
11	Rents rates & taxes	266
8,180	**Total expenditure**	**9,126**
7,892	**Net management fee**	**8,130**

Note split of fee altered in 2021/22 due to a review by HiS to address historic drift, previously the % uplift was just applied to prior year figures.

Note 7 Housing Stock

31-Mar-21 number	%	analysed by type of property	31-Mar-22 number	%
690	17.1	Low rise flats	665	16.5
732	18.1	Medium rise flats	713	17.7
61	1.5	High rise flats	56	1.4
2,485	61.4	Houses and bungalows	2,521	62.5
3,968	**98.1**		**3,955**	**98.1**
76	1.9	Shared ownership dwellings	76	1.9
4,044	**100.0**	**TOTAL**	**4,031**	**100.0**

31-Mar-21 number	%	analysed by number of bedrooms	31-Mar-22 number	%
135	3.3	Bedsits	124	3.1
1,255	31.0	One	1,269	31.5
998	24.8	Two	1,008	25
1,590	39.3	Three	1,569	38.9
66	1.6	Four or more	61	1.5
4,044	**100.0**	**TOTAL**	**4,031**	**100.0**

31-Mar-21 Number	%	analysed by year of construction	31-Mar-22 Number	%
595	14.7	pre 1945	586	14.5
1,687	41.7	1945 – 1964	1,664	41.3
804	19.9	1965 – 1974	797	19.8
958	23.7	post 1974	984	24.4
4,044	**100.0**	**TOTAL**	**4,031**	**100.0**

31-Mar-21	Number of dwellings adjusted for shared ownership	31-Mar-22
4,044.0	Actual number	4,031.0
(37.1)	Adjustment for shared ownership	(38.4)
4,006.9	**TOTAL**	**3,992.6**

31-Mar-21	number of leaseholders (flats)	31-Mar-22
104.0	Actual number	112.0
104.0	**TOTAL**	**112.0**

summary of stock movements	
stock @31.3.2021	4,044.0
stock @31.3.2022	4,031.0
MOVEMENT	**(13.0)**
Gains	
New build	25.0
Re-purchased	2.0
Shared ownership trf to affordable housing rent	0.0
Market rent flat over shop trf to affordable	0.0
Losses	
RTB	(36.0)
Demolitions	0.0
Pending demolition	(4.0)
Non RTB sales	0.0
TOTAL	**(13.0)**

Balance Sheet values of assets

31-Mar-21 £'000		31-Mar-22 £'000	Balance Sheet classification
123,480	Dwellings	139,484	Council dwellings
72,329	Land	81,633	Council dwellings
2,593	Block garages	3,150	Other land & buildings
1,274	Shops	1,141	Non-operational assets
199,676	**TOTAL**	**225,408**	

The vacant possession value of dwellings at 31st March 2022 was £632 million (£508 million 31st March 2021), whereas the Balance Sheet, as indicated above, shows a value which takes account of depreciation and a prescribed deduction of 65% - an adjustment applied to reflect the occupation under a secured tenancy with the Right To Buy (Existing Use Value for Social Housing). The difference between the Open Market Value and the Existing Use Value for Social Housing can be seen as the economic cost to government of providing council housing at less than open market rents.

Note 8 Major Repairs Reserve

2020/21 £'000		2021/22 £'000
200	Balance at 1 April	0
	Depreciation transferred from HRA:	
4,684	Dwellings	4,756
191	Block garages etc	259
(5,075)	Used to fund HRA capital expenditure on dwellings	(5,015)
0	**Balance at 31 March**	**0**

Note 9 Capital Expenditure

2020/21 £'000		2021/22 £'000
9,835	Dwellings improvements	9,954
836	New council housing expenditure	182
2,911	New Build expenditure	4,400
240	Adaptations for disabled people	303
228	Estate sewerage scheme upgrade	58
14,050		**14,897**
	Funded by	
2,572	Borrowing	3,281
1,331	Use of Capital Receipts	1,280
0	Grants and contribuitons	150
5,075	Transfer from Major Repairs Reserve	5,015
5,072	Revenue	5,171
14,050		**14,897**

Note 10 Disposal of Assets

2020/21 £'000		2021/22 £'000
	Right to buy sales	
1,971	Buildings	3,351
1,153	Land	2,065
3,124	**Capital Receipts from sale of Housing Revenue Account assets**	**5,416**

Note 11 Rent Arrears

31-Mar-21 £'000		31-Mar-22 £'000
304	Arrears at 31 March	295
(54)	Less former tenants' arrears	(45)
250	**Current tenants' arrears**	**250**
16,342	Gross rents	16,673
250	Current tenants' arrears	250
1.53%	As a percentage of rent collectable	1.50%

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

2020/21 Business Rates £'000	2020/21 Council Tax £'000	2020/21 Total £'000		2021/22 Business Rates £'000	2021/22 Council Tax £'000	2021/22 Total £'000
			Income			
(24,424)	0	**(24,424)**	Business rate payers	(36,246)	0	**(36,246)**
0	(75,462)	**(75,462)**	Council tax payers	0	(81,630)	**(81,630)**
			General fund			
0	(13)	**(13)**	Council tax benefit	0	(22)	**(22)**
0	(834)	**(834)**	Council tax hardship	0	0	**0**
			Apportionment of Previous Year Deficit			
0	0	**0**	Central Government	(9,817)	0	**(9,817)**
0	0	**0**	Sedgemoor District Council	(7,912)	(232)	**(8,144)**
0	0	**0**	Somerset County Council	(1,829)	(1,293)	**(3,122)**
0	0	**0**	Devon & Somerset Fire & Rescue	(198)	(88)	**(286)**
0	0	**0**	Avon & Somerset Police Crime Commissioner	0	(228)	**(228)**
(24,424)	**(76,309)**	**(100,733)**	**Total Income**	**(56,002)**	**(83,493)**	**(139,495)**
			Expenditure			
686	0	**686**	Transitional relief	18	0	**18**
			Apportionment of Previous Year Surplus			
1,196	0	**1,196**	Central Government	0	0	**0**
1,636	83	**1,719**	Sedgemoor District Council	0	0	**0**
937	464	**1,401**	Somerset County Council	0	0	**0**
38	32	**70**	Devon & Somerset Fire & Rescue Service	0	0	**0**
0	81	**81**	Avon & Somerset Police Crime Commissioner	0	0	**0**
4,493	**660**	**5,153**		**18**	**0**	**18**
			Precepts, Demands and Shares			
21,744	0	**21,744**	Central Government	21,339	0	**21,339**
17,396	9,567	**26,963**	Sedgemoor District Council	17,072	9,980	**27,052**
3,914	53,419	**57,333**	Somerset County Council	3,841	55,483	**59,324**
435	3,656	**4,091**	Devon & Somerset Fire Service	427	3,689	**4,116**
0	9,439	**9,439**	Avon & Somerset Police Crime Commissioner	0	9,887	**9,887**
43,489	**76,081**	**119,570**		**42,679**	**79,039**	**121,718**
			Charges to Collection Fund			
18	0	**18**	Less write offs of uncollectable amounts	13	0	**13**
291	172	**463**	Less : Increase/(Decrease) in Bad Debt	399	223	**622**
(1,326)	0	**(1,326)**	Less : Increase/(Decrease) in Provision for	877	0	**877**
168	0	**168**	Less : Cost of Collection	170	0	**170**
209	(35)	**174**	Less : Disregarded Amounts	231	(39)	**192**
(640)	**137**	**(503)**	**Total Expenditure**	**1,690**	**184**	**1,874**
22,918	**569**	**23,487**	**Deficit/(Surplus) arising during the year**	**(11,615)**	**(4,270)**	**(15,885)**
(3,564)	542	**(3,022)**	**Deficit/(Surplus) b/fwd 1st April**	19,354	1,111	**20,465**
19,354	**1,111**	**20,465**	**Deficit(Surplus) c/fwd 31st March**	**7,739**	**(3,159)**	**4,580**

TAX INCOME

Accounting for Council Tax

The collection of Council Tax income is in substance an agency arrangement with the cash collected by the Council from council tax debtors belonging proportionately to the Council and the major preceptors. There will be therefore a debtor/creditor position between the Council and each major preceptor to be recognised since the net cash paid to each major preceptor in the year will be its share of the cash collected from council taxpayers.

The Council Tax income included in the Taxation and Non Specific Grant Income line in the Comprehensive Income and Expenditure Statement will be the accrued income for the year. This is calculated by taking the demand on the Collection Fund plus the authority's share of the carry forward surplus/deficit on the Collection Fund as at the 31st March 2022. This amount is then adjusted for the authority's share of the surplus/deficit at 31st March 2022 that has not been distributed or recovered in the current year.
The difference between the income included in the Taxation and Non Specific Grant Income line in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the Collection Fund shall be taken to the Collection Fund Adjustment Account and included as a reconciling item in the General Fund in the Movement in Reserves Statement.

In 2013/14, the national council tax benefit scheme was replaced by a local council tax support scheme. This has meant that rather than individual recipients receiving council tax benefits from Central Government, a discount is applied to that individual's council tax bill.

Accounting for National Non-Domestic Rates (Business rates)

The collection of National Non-Domestic Rates income is in substance an agency arrangement. The cash collected by the Council from business rates debtors belongs proportionately to the Council, Central Government and the major preceptors. There will be therefore a debtor/creditor position between the Council, Central Government and each major preceptor to be recognised since the net cash paid to central Government and each major preceptor in the year will not be its share of the cash collected from business rate payers.

The National Non-Domestic Rates income included in the Taxation and Non Specific Grant Income line in the Comprehensive Income and Expenditure Statement will be the accrued income for the year. This is calculated by taking the demand on the Collection Fund plus the authority's share of the carry forward surplus/deficit on the Collection Fund as at 31st March 2022. This amount is then adjusted for the authority's share of the surplus/deficit of 31st March 2022 that has not been distributed or recovered in the current year.

The difference between the income included in the Taxation and Non Specific Grant Income line in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the Collection Fund Adjustment Account is included as a reconciling item in the General Fund in the Movement in Reserves Statement.

The Business Rates Retention model replaced the previous funding formula whereby all business rates collected were paid over to Central Government to be allocated back on a formula basis. The new scheme was implemented on 1st April 2013 and the government set each Local Authority a baseline. This was based on the current level of funding under the previous formula scheme. Business Rates Retention is based on 50% of business rates collected being retained by Local Authorities (40% Sedgemoor District Council, 9% Somerset County Council and 1% Devon and Somerset Fire and Rescue).

Top-ups and tariffs are part of the system of redistribution. The Council pays a tariff as it collects more business rates than it keeps and distributes. The safety net provides protection against significant reduction in income as a result of the scheme by guaranteeing that no authority sees its retained rates income fall below a fixed percentage of its baseline funding. These payments are funded through a levy which is applied when the retained rates income level for the year is more than its baseline funding for the year.

Note 1 Business Rates (Also Known as Non-Domestic Rates or NDR)

2020/21		**2021/22**
£109,579,949	total non-domestic rateable value at end of year (31 March)	£109,710,494
0.512	national non-domestic rate multiplier for the year	0.512
0.499	small business non-domestic rating multiplier	0.499

Note 2 Council Tax Base

2020/21 band D equivalents	**2021/22 property band**	**2021/22 number of properties valuation list**	**2021/22 number of properties after discounts etc**	**2021/22 conversion factor**	**2021/22 band D equivalents**
9.11	A	13,441	18.81	5/9	10.45
5,874.85			8,732.24	6/9	5,821.49
7,646.02	B	12,787	9,832.27	7/9	7,647.32
9,095.23	C	12,283	10,292.14	8/9	9,148.57
7,133.87	D	8,179	7,193.90	9/9	7,193.90
5,998.05	E	5,337	4,910.39	11/9	6,001.58
3,627.00	F	2,722	2,528.57	13/9	3,652.38
2,176.45	G	1,404	1,305.85	15/9	2,176.41
66.00	H	60	33.25	18/9	66.51
41,626.58		**56,213**	**44,847.42**		**41,718.61**
741.30	allowance for new properties				627.80
42,367.88					**42,346.41**
41,435.78	ESTIMATED TAX BASE				40,991.35
97.80%	assuming collection rate of				96.80%

Note 3 Council Tax Amounts

2020/21 £	**Council Tax Amounts Band D**	**2021/22 £**
1,289.20	Somerset County Council	1,353.53
227.81	Avon & Somerset Police Crime Commissioner	241.20
88.24	Devon & Somerset Fire & Rescue Service	90.00
167.32	Sedgemoor District Council (district element)	172.32
63.58	Sedgemoor District Council (average parish element)	71.14
1,836.15	**Average Council Tax Band D**	**1,928.19**

Note 4 Allocation of Year End Surplus/Deficit

An estimate is made each January of the surplus or deficit on the collection fund in order for Somerset County Council, Avon & Somerset Police Crime Commissioner and Devon & Somerset Fire & Rescue Service and the District Council to take this into account when setting their precept for the following year. The actual payments made are detailed in the Collection Fund statement.

Note 5 Effect of the Covid-19 reliefs on the Collection Fund

Continuing on from the package of measures to help businesses and the Council deal with the Covid pandemic the government put in place 2020/21 the nursery relief and extended retail relief on business rates bills has continued into 2021/22, which meant that hundreds of businesses in the district didn’t have to pay or had reduced business rates.

Again due to the introduction of these new reliefs introduced after the council had done its estimate of business rates, we have collected less cash than we were due to pay out to the preceptors, therefore this has had the effect of making the collection fund go into deficit for 2020/21 and again for 2021/22.

This will be corrected by the Major Preceptors paying over their share of the deficit in 2021/22, whilst at the same time being reimbursed by the government via Section 31 grant for the new reliefs.

Group Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the authority, analysed into ‘usable reserves’ (i.e. those that can be applied to fund expenditure or reduce local taxation) and other ‘unusable reserves’.
This statement shows how the movements in year of the authority’s reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax [or rents] for the year.

The Net Increase/Decrease line shows the statutory General Fund Balance and Housing Revenue Account Balance movements in the year following those adjustments.

For the year ended 31 March 2022	General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves	Unusable reserves	Total Authority Reserves	Authorities share of subsidiary Usable	Authorities share of subsidiary Unusable	Total Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2021	**32,657**	**11,572**	**0**	**3,432**	**5,200**	**52,861**	**50,697**	**103,558**	**3,328**	**(8,515)**	**98,371**
Movement in reserves during 2021/22											
Surplus or (deficit) on provision of services	2,077	472	0	0	0	**2,549**	39,422	**41,971**	(1,667)	2,679	**42,983**
Adjustments between accounting basis and funding basis under	(6,212)	(2,695)	0	775	2,724	**(5,408)**	5,408	**0**	955	(955)	**0**
Increase/Decrease in year	**(4,135)**	**(2,223)**	**0**	**775**	**2,724**	**(2,859)**	**44,830**	**41,971**	**(712)**	**1,724**	**42,983**
Balance at 31 March 2022 carried forward	**28,522**	**9,349**	**0**	**4,207**	**7,924**	**50,002**	**95,527**	**145,529**	**2,616**	**(6,791)**	**141,354**

For the year ended 31 March 2021	General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves	Unusable reserves	Total Authority Reserves	Authorities share of subsidiary Usable	Authorities share of subsidiary Unusable	Total Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2020	**19,277**	**13,606**	**200**	**2,883**	**4,114**	**40,080**	**47,894**	**87,974**	**3,197**	**(5,775)**	**85,396**
Movement in reserves during 2020/21											
Surplus or (deficit) on provision of services	1,592	1,625	0	0	0	**3,217**	12,367	**15,584**	(319)	(2,290)	**12,975**
Adjustments between accounting basis and funding basis under	11,788	(3,659)	(200)	549	1,086	**9,564**	(9,564)	**0**	450	(450)	**0**
Increase/Decrease in year	**13,380**	**(2,034)**	**(200)**	**549**	**1,086**	**12,781**	**2,803**	**15,584**	**131**	**(2,740)**	**12,975**
Balance at 31 March 2021 carried forward	**32,657**	**11,572**	**0**	**3,432**	**5,200**	**52,861**	**50,697**	**103,558**	**3,328**	**(8,515)**	**98,371**

Group Comprehensive Income and Expenditure Statement

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

	2020/21				2021/22	
Gross Expenditure £'000 Restated	Gross Income £'000 Restated	Net Expenditure £'000 Restated		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
1,097	0	1,097	Chief Executive	962	(59)	903
1,602	(1,128)	474	Customer Services	2,081	(1,172)	909
12,008	(6,438)	5,570	Environment & Regulation	11,240	(4,322)	6,918
25,093	(21,260)	3,833	Finance & Property	22,946	(20,514)	2,432
5,343	(2,399)	2,944	Housing, Health & Wellbeing	8,737	(3,998)	4,739
7,425	(5,726)	1,699	Inward Investment & Growth	6,920	(5,395)	1,525
3,149	(197)	2,952	Legal & Governance	5,215	(425)	4,790
142	(174)	(32)	Trading Company	13	(21)	(8)
14,063	(18,333)	(4,270)	Local Authority housing (HRA)	16,648	(19,770)	(3,122)
69,922	**(55,655)**	**14,267**	**Cost of Services**	**74,762**	**(55,676)**	**19,086**
		3,767	Other Operating Expenditure			5,750
		1,190	Financing and Investment income & expenditure			(2,398)
		(22,138)	Taxation and non-specific grant income and expenditure			(23,319)
		0	Taxation expense			0
		(2,914)	**DEFICIT (SURPLUS) FOR THE YEAR**			**(881)**
		(27,343)	Surplus or deficit on revaluation of non current assets			(24,212)
		17,266	Remeasurement of the net defined benefit liability/(asset)			(17,199)
		(10,077)	**Other Comprehensive Income and Expenditure**			**(41,411)**
		(12,991)	**Total Comprehensive Income and Expenditure**			**(42,292)**

Group Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the group. The net assets of the group (assets less liabilities) are matched by the reserves held. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the authority 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 authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

31-Mar-21		31-Mar-22		
£'000		£'000	£'000	note
224,665	Property, Plant & Equipment	263,252		
521	Heritage Assets	521		
44,385	Investment properties	44,802		5
126	Intangible assets	112		
40,666	Long term investments	41,811		6
348	Long term debtors	34		
310,711	**Long term assets**		350,532	
628	Short Term Investments	654		
0	Assets Held for Sale	0		
16	Inventories	26		
22,442	Short Term Debtors	13,757		7
10,666	Cash & cash equivalents	8,257		8
33,752	**Current assets**		22,694	
(1,223)	Short Term Provisions	(1,584)		
(40,414)	Short Term Borrowing	(32,007)		
(40,113)	Short Term Creditors	(36,503)		9
(81,750)	**Current liabilities**		(70,094)	
(61,059)	Long Term Borrowing	(71,353)		
(2,243)	Capital Grants Receipts in Advance	(1,979)		
(101,040)	Other Long Term Liabilities	(88,446)		15
(164,342)	**Long Term Liabilities**		(161,778)	
98,371	**NET ASSETS**		**141,354**	
56,189	Usable Reserves		52,618	10
42,182	Unusable Reserves		88,736	10
98,371	**TOTAL RESERVES**		**141,354**	

Group Cash Flow Statement

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

2020/21 £'000		2021/22 £'000
(2,914)	Net (surplus) or deficit on the provision of services	**(881)**
	Adjustments to net surplus or deficit on the provision of services for non cash movements	
(5,529)	Depreciation	(5,607)
(6,650)	Impairment and downward valuations	(1,302)
(11)	Amortisation	(14)
(229)	(Increase)/decrease in impairment for bad debts	400
(22,427)	(Increase)/decrease in creditors	5,041
3,144	Increase/(decrease) in debtors	317
7	Increase/(decrease) in inventories (stock)	10
(2,220)	Movement in pension liability	(4,605)
(3,134)	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	(5,426)
(5,081)	Other non-cash items charged to the net surplus or deficit on the provision of services.	8,411
(42,130)	**Total Adjustments to net surplus or deficit on the provision of services for non cash movements**	**(2,775)**
	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	
2,274	Other Capital cash receipts	2,867
2,274	**Total Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities**	**2,867**
(42,770)	**Net Cashflow from Operating Activities**	**(789)**
26,059	Purchase of Property, Plant & Equipment, investment property and intangible assets	25,731
803	Purchase of short term & long term investments	596
419	Other payments for investing activities	2,464
(2,274)	Proceeds from the sale of Property Plant & Equipment, investment property and intangible assets	(2,867)
(458)	Proceeds from long & short term investments	(814)
(3,141)	Capital grants received	(4,272)
21,408	**Total cashflow from Investing Activities**	**20,838**
(43,000)	Cash receipts of short- and long-term borrowing	(52,000)
41,916	Repayments of short- and long-term borrowing	50,000
1,268	Net increase in Council Tax	(3,569)
25,025	Net (increase)/decrease in National Non Domestic Rates (NNDR)	(12,071)
25,209	**Total cashflow from Financial Activities**	**(17,640)**
3,847	Net (increase)/decrease in cash and cash equivalents	2,409
(14,513)	Cash & Cash equivalents at the beginning of the reporting period	(10,666)
(10,666)	Cash & Cash equivalents at the end of the reporting period	(8,257)

These notes to the Group Accounts are provided in addition to the notes to the Accounting Statements within the single entity Statement of Accounts. Notes have been omitted if there are no material differences to the disclosure already made.

Sedgemoor District Council wholly owns three companies which have been categorised as subsidiaries of the Authority and have been consolidated into the Group Accounts as follows:

- Homes in Sedgemoor Ltd, an Arm's Length Management Organisation (ALMO) established on 1 April 2007 to improve the council's housing stock by accessing additional Government funds. The Council retains ownership of the housing stock and Homes in Sedgemoor Ltd manages it.

- Sedgemoor Group Ltd established in February 2016 to hold a group of subsidiary companies delivering services in order to make savings to the authority in the long term. Currently holds Aspen Housing & Development Ltd.

- Aspen Housing & Development Ltd established in February 2016 to purchase Aspen Court, a private housing development, in order to generate income for the authority.

Homes in Sedgemoor Ltd
The Board consists of three tenants, three nominees from Sedgemoor District Council and three independent members.

The Annual Report and Financial Statements of Homes in Sedgemoor Ltd is available from:
Homes in Sedgemoor Ltd, Bridgwater House, King Square, Bridgwater, Somerset, TA6 3AR.

The accounts are unqualified for 2021/22 and will be presented to the Homes in Sedgemoor Ltd Board on 26th July 2022 for approval.

The Group Accounts have been prepared by combining Homes in Sedgemoor Ltd's income & expenditure and assets & liabilities with those of the Council on a line-by-line basis, eliminating inter-organisation transactions. The operating income and expenditure has been included within the Housing Revenue Account line before net cost of service. Taxation has been disclosed as a separate line before net operating expenditure.

The company's main source of income is a management fee from the Council of £8.130m (£7.892m 2020/21).

The Council is committed to fund any deficit made by Homes in Sedgemoor Ltd, as the Housing Revenue Account is still the Council's overall responsibility. Within the management agreement with Homes in Sedgemoor Ltd, if a deficit is predicted at year-end, they are required to present a plan to ensure that the expenditure is brought back within budget. This is monitored monthly until the situation is resolved.

Basis of consolidation - The Group Accounts have been prepared on the basis of a full consolidation of the financial transactions and balances of the council and Homes in Sedgemoor Ltd.

Sedgemoor Group Ltd
The Board Consists of three directors – all officers, appointed by Sedgemoor District Council.

The audited accounts are expected to be approved by the Board of Directors in August 2022.

Basis of consolidation – The Group Accounts have been prepared on the basis of a full consolidation of the financial transactions and balances of the council and the two entities.

Aspen Housing & Development Ltd
The Board Consists of three directors – all officers, appointed by Sedgemoor District Council.

The audited accounts are expected to be approved by the Board of Directors in August 2022.

Basis of consolidation – The Group Accounts have been prepared on the basis of a full consolidation of the financial transactions and balances of the council and the two entities.

Note 1 Expenditure and Funding Analysis

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

For the year ended 31 March 2022	Net Expenditure Chargeable to the General Fund and HRA Balances £'000	Adjustments between Funding and Accounting Basis £'000	Net Expenditure in the Comprehensive Income and Expenditure Statement £'000
Chief Executive	903	0	**903**
Customer Services	888	21	**909**
Environment & Regulation	6,259	659	**6,918**
Finance & Property	2,425	7	**2,432**
Housing, Health & Wellbeing	2,920	1,819	**4,739**
Inward Investment & Growth	1525	0	**1,525**
Legal & Governance	2,951	1,839	**4,790**
Central Support Services	(1,327)	1,327	**0**
Trading Company	(8)	0	**(8)**
Local Authority housing (HRA)	(8,137)	5,015	**(3,122)**
Net cost of services	**8,399**	**10,687**	**19,086**
Other income and expenditure	(1,329)	(18,638)	**(19,967)**
Surplus or deficit	**7,070**	**(7,951)**	**(881)**
Opening Balances at 31 March	(47,574)		
Movement on Balance in Year	7,070		
Closing Balances at 31 March *	**(40,504)**		

For the year ended 31 March 2021 Restated	Net Expenditure Chargeable to the General Fund and HRA Balances £'000	Adjustments between Funding and Accounting Basis £'000	Net Expenditure in the Comprehensive Income and Expenditure Statement £'000
Chief Executive	1,097	0	**1,097**
Customer Services	449	25	**474**
Environment & Regulation	5,261	309	**5,570**
Finance & Property	3,086	747	**3,833**
Housing, Health & Wellbeing	2,890	54	**2,944**
Inward Investment & Growth	1699	0	**1,699**
Legal & Governance	2,918	34	**2,952**
Central Support Services	(1,098)	1,098	**0**
Trading Company	(32)	0	**(32)**
Local Authority housing (HRA)	(9,454)	5,182	**(4,272)**
Net cost of services	**6,816**	**7,449**	**14,265**
Other income and expenditure	(18,310)	1,131	**(17,179)**
Surplus or deficit	**(11,494)**	**8,580**	**(2,914)**
Opening Balances at 31 March	(36,080)		
Movement on Balance in Year	(11,494)		
Closing Balances at 31 March *	**(47,574)**		

**for a split of this balance between the General Fund, HRA, Homes in Sedgemoor Ltd and Sedgemoor Group Ltd usable reserves – see the Movement in Reserves Statement (MIRS).*

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts:

For the year ended 31 March 2022	Adjustments for Capital Purposes (1) £'000	Net change for the Pensions (2) £'000	Other Differences (3) £'000	Total Adjustments £'000
Chief Executive	0	0	0	**0**
Customer Services	21	0	0	**21**
Environment & Regulation	659	0	0	**659**
Finance & Property	7	0	0	**7**
Housing, Health & Wellbeing	1,819	0	0	**1,819**
Inward Investment & Growth	0	0	0	**0**
Legal & Governance	0	1,839	0	**1,839**
Central Support Services	1,327	0	0	**1,327**
Local Authority housing (HRA)	5,015	0	0	**5,015**
Net cost of services	**8,848**	**1,839**	**0**	**10,687**
Other income and expenditure	(14,786)	2,766	(6,619)	**(18,639)**
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit	**(5,938)**	**4,605**	**(6,619)**	**(7,952)**

For the year ended 31 March 2021	Adjustments for Capital Purposes (1) £'000	Net change for the Pensions (2) £'000	Other Differences (3) £'000	Total Adjustments £'000
Chief Executive	0	0	0	**0**
Customer Services	25	0	0	**25**
Environment & Regulation	309	0	0	**309**
Finance & Property	657	0	90	**747**
Housing, Health & Wellbeing	54	0	0	**54**
Inward Investment & Growth	0	0	0	**0**
Legal & Governance	0	34	0	**34**
Central Support Services	1,098	0	0	**1,098**
Local Authority housing (HRA)	4,875	307	0	**5,182**
Net cost of services	**7,018**	**341**	**90**	**7,449**
Other income and expenditure	(6,838)	1,880	6,089	**1,131**
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit	**180**	**2,221**	**6,179**	**8,580**

Adjustments for Capital Purposes

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

Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.

Financing and investment income and expenditure – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.

Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Net Change for the Pensions Adjustments

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

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

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

Other Differences

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

For **Financing and investment income and expenditure** the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.

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

Note 2 Segmental Income

Income received on a segmental basis is analysed below:

2020/21 Income from Services £'000 Restated		2021/22 Income from Services £'000
0	Chief Executive	(59)
(1,128)	Customer Services	(1,172)
(6,438)	Environment & Regulation	(4,322)
(21,260)	Finance & Property	(20,514)
(2,399)	Housing, Health & Wellbeing	(3,998)
(5,726)	Inward Investment & Growth	(5,395)
(197)	Legal & Governance	(425)
(174)	Trading Account	(186)
(18,333)	Housing Revenue Account	(19,770)
(55,655)	**Net cost of services**	**(55,841)**

Note 3 Expenditure and Income Analysed by Nature

The Authority's expenditure and Income is analysed as follows:

2020/21 £'000		2021/22 £'000
	Expenditure	
20,194	Employee expenses	23,967
47,265	Other service expenses	46,445
16,997	Support Service recharges	18,164
12,286	Depreciation, amortisation and impairment	9,142
2,012	Interest Payments	2,084
4,254	Precepts & Levies	4,591
274	Payments to Housing Capital Receipts Pool	274
860	Gain or Loss on Disposal of Fixed Assets	2,560
104,142	**Total operating expenses**	**107,227**
	Income	
(51,841)	Fees, charges & other service income	(56,387)
(5,714)	Interest and investment income	(3,568)
(9,578)	Income from council tax	(10,286)
4,777	Income from business rates	1,210
(44,700)	Government grants and contributions	(39,077)
(107,056)	**Total Income**	**(108,108)**
(2,914)	**Surplus or deficit on the provision of services**	**(881)**

Note 4 Financing and Investment Income and Expenditure

2020/21 £'000 Restated		2020/21 £'000
2,012	Interest payable and similar charges	2,084
(2,483)	Interest Receivable & similar income	(2,099)
(265)	Net Deficit/(Surplus) from Trading Services	200
(1,945)	Net Investment Property Income	(3,373)
	Reversed in Movement in Reserves	
5,228	Changes in Fair Value on Investment Properties	273
1,873	Pensions Interest Cost & Return on Assets	1,984
34	Expected Credit Loss	(42)
(3,264)	Financial Investments Revaluations	(1,425)
1,190		**(2,398)**

Note 5 Investment Properties

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

2020/21 £'000		2021/22 £'000
39,375	Balance at 1 April	44,385
10,238	Additions	0
(5,228)	Net gains/(losses) from fair value adjustments	417
44,385	**Balance at 31 March**	**44,802**

Fair value hierarchy

Aspen Court is measured at Level 2 – observable inputs, comparative & investment (2.66m).
All other investment properties are measured at Level 3 - using unobservable inputs (42.14m).

Transfers between Levels of the Fair Value Hierarchy

There were no transfers between Levels during the year.

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

Significant Observable Inputs – Level 2

One investment property, Aspen Court - has been valued using level 2 observable inputs.

Significant Unobservable Inputs – Level 3

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

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

Highest and Best Use of Investment Properties

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

Valuation Techniques

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

Gains or losses arising from changes in the fair value of the investment property are recognised in Surplus or Deficit on the Provision of Services – Financing and Investment Income and Expenditure line.

Note 6 Long Term Investments

2020/21 £'000		2021/22 £'000
37,245	Balance at 1 April	40,666
803	New Service Loans	596
3,264	Valuation adjustments taken to pooled investments adjustment account	1,425
(16)	Expected Credit Loss	(38)
(457)	Loan Repayments	(814)
(173)	Repayable within 12 months	(24)
40,666	**Balance at 31 March**	**41,811**
2,843	CCLA Diversified Income Fund	2,975
4,664	CCLA Property Fund	5,482
4,905	Investec Diversified Income Fund	4,738
4,883	Kames Diversified Monthly Income fund	4,875
6,676	Schroder Income Maximiser Fund	7,402
4,663	UBS Global Income Fund	4,588
12,032	Service Loans	11,751
40,666		**41,811**

Note 7 Short Term Debtors

31-Mar-21 £'000		31-Mar-22 £'000
1,919	Central Government Bodies	2,147
317	Other Local Authorities	584
876	Collection Fund Business Rates - Sedgemoor	1,485
10,882	Collection Fund Business Rates - Preceptors	1,198
1,698	Business Rates - Pool Dividend	3,649
586	Collection Fund Council Tax - Sedgemoor	664
2,382	Collection Fund Council Tax - Preceptors	0
400	Other Entities and individuals	448
4,505	Sundry Debtors	4,587
439	Payments in Advance	353
37	Long Term Debtors due within 1 year	29
(1,599)	*Less bad debt provisions*	(1,387)
22,442		**13,757**

Note 8 Cash & Cash Equivalents

The balance of Cash and Cash Equivalents is made up of the following elements:

31-Mar-21 £'000		31-Mar-22 £'000
1	Cash held by the Authority	1
4,439	Bank Current Accounts	2,499
6,226	Short term deposits	5,757
10,666		**8,257**

Note 9 Short Term Creditors

31-Mar-21 £'000		31-Mar-22 £'000
2,132	Central Government Bodies	3,648
4,272	Department for Business, Energy & Industrial Strategy - Business Grants	1,524
650	Other Local Authorities	536
2,264	Business Rates - Pool Levy Due	2,033
262	Collection Fund Business Rates - Sedgemoor	256
0	Collection Fund Business Rates - Preceptors	738
204	Collection Fund Council Tax - Sedgemoor	166
769	Other Entities and Individuals	938
5,059	Sundry Creditors	5,283
24,501	Receipts in Advance	21,381
40,113		**36,503**

The full breakdown of the receipts in advance figure can be found in the single entity short term creditors note.

Note 10 Usable and Unusable Reserves

31-Mar-21 £'000		31-Mar-22 £'000	31-Mar-22 £'000	Movement £'000
	Usable Reserves			
32,657	General Fund balance	28,522		(4,135)
11,572	Housing Revenue Account balance	9,349		(2,223)
0	Major Repairs reserve	0		0
3,432	Capital Receipts reserve	4,207		775
5,200	Capital Grants Unapplied account	7,924		2,724
	Deferred Capital Receipts Reserve			0
3,328	Subsidiary Profit & Loss reserve	2,616		(712)
56,189			**52,618**	**(3,571)**
	Unusable Reserves			
73,777	Revaluation reserve	97,709		23,932
(28)	Financial instruments adjustment account	(25)		3
80,001	Capital adjustment account	82,718		2,717
(92,460)	Pensions reserve	(80,900)		11,560
(7,890)	Collection Fund Adjustment account	(2,697)		5,193
(339)	Short Term Accumulating Compensated Absences	(339)		0
0	Available for sale reserve	0		0
(2,364)	Pooled Investment Fund Adjustment Account	(939)		1,425
64	Subsidiary Unusable reserve	754		690
(8,579)	Subsidiary Pensions reserve	(7,545)		1,034
42,182			**88,736**	**46,554**
98,371	**Total Reserves**		**141,354**	**42,983**

Note 11 Cash Flow Statement

The cash flows for Operating Activities include the following items:

2020/21 £'000		2021/22 £'000
(2,012)	Interest paid	(2,084)
2,535	Interest received	2,099
523		**15**

Note 12 Financial Instruments

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

Financial Assets

A financial asset is a right to future economic benefits controlled by the authority that is represented by cash, equity instruments or a contractual right to receive cash or other financial assets or a right to exchange financial assets and liabilities, with another entity that is potentially favourable to the authority.

Financial Assets – balances

Fair Value Level	31-Mar-21 Long-Term £'000	31-Mar-21 Current £'000		Fair Value Level	31-Mar-22 Long-Term £'000	31-Mar-22 Current £'000
			Investments at amortised cost:			
	12,101	629	- principal element of loans advanced		11,858	654
	(70)	0	- loss allowance		(108)	0
			At fair value through profit & loss			
1	28,634	0	- fair value of pooled funds	1	30,061	0
	40,665	**629**	**Total investments**		**41,811**	**654**
			Cash & cash equivalents at amortised cost:			
	0	4,440	- principal		0	2,499
			Cash & cash equivalents at fair value through profit & loss:			
	0	6,226	- fair value of money market funds		0	5,757
	0	**10,666**	**Total cash & cash equivalents**		**0**	**8,256**
			Debtors at amortised cost:			
	428	5,230	- trade receivables		34	5,264
	(80)	(1,203)	- loss allowance		0	(803)
	0	*18,414*	*Debtors that are not financial instruments*		*0*	*8,558*
	348	**22,441**	**Total Debtors**		**34**	**13,019**
	41,013	**15,322**	**Total Financial Assets**		**41,845**	**13,371**

Financial Liabilities

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

Financial Liabilities – balances

31-Mar-21 Long-Term £'000	31-Mar-21 Current £'000		31-Mar-22 Long-Term £'000	31-Mar-22 Current £'000
		Loans at amortised cost:		
61,059	40,000	- principal sum borrowed	71,353	31,706
0	414	- accrued interest	0	301
61,059	**40,414**	**Total Loans**	**71,353**	**32,007**
		Creditors at amortised cost:		
0	5,640	- trade payables	0	5,949
0	34,473	*creditors that are not financial instruments*	*0*	*29,816*
0	*40,113*	**Total Creditors**	**0**	**35,765**
61,059	**46,054**	**Total Financial Liabilities**	**71,353**	**37,956**

Note 13 Officers Remuneration

Senior Employees

a) Individual disclosure for senior employees whose remuneration was £50,000 or more is as follows:

2021/22

Job Title	Salary £	Taxable Benefits P11D £	Total Remuneration £	Pension Contribution £	Total inc Pension £
Chief Executive	122,068	0	122,068	23,019	145,087
Chief Executive - HIS	99,321	0	99,321	18,254	117,574
Deputy Chief Executive	106,235	1,242	107,477	20,033	127,510
Strategic Director and Section 151 Officer	93,421	0	93,421	16,498	109,919
Assistant Directors:					
Local Government Restructure	71,598	0	71,598	13,114	84,712
Unitary Service Integration	71,598	0	71,598	9,604	81,202
Customer Access	71,598	0	71,598	13,422	85,020
Environment & Regulation	71,598	0	71,598	13,419	85,017
Finance & Property	51,865	0	51,865	10,146	62,011
Housing, Health & Wellbeing	71,598	0	71,598	13,419	85,017
Inward Investment & Growth	69,968	0	69,968	12,471	82,439
Legal & Governance	55,376	0	55,376	10,380	65,756
Neighbourhoods - HIS	70,702	0	70,702	12,994	83,696
Asset Management & Safety - HIS	67,956	0	67,956	12,322	80,278
Finance & Performance - HIS	67,956	0	67,956	12,489	80,446
	1,162,858	**1,242**	**1,164,100**	**211,584**	**1,375,684**

The Strategic Director & Section 151 Officer was appointed on 19th April 2021 – full year salary would have been £88,895.

The Interim Assistant Director Finance and Property was appointed on 1st December 2021 – full year salary would have been £66,723. The salary above includes salary of previous role for April to November 2021.

The Assistant Director Legal & Governance was appointed to a new post of Assistant Director Local Government Restructure on 1st December 2021. There was no salary change.

The Interim Assistant Director L&G was appointed on 1st December 2021 – full year salary would have been £66,723.

The Assistant Director Environment & Regulation was appointed to a new post of Assistant Director Unitary Service Integration on 1st June 2021. There was no salary change.

The Interim Assistant Director Environment & Regulation was appointed on 1st June 2021 – full year salary would have been £66,723. The salary above includes salary of previous role for April to November 2021.

2020/21

Job Title	Salary	Taxable Benefits P11D	Total Remuneration	Pension Contribution	Total inc Pension
	£	£	£	£	£
Chief Executive*	126,143	0	126,143	23,588	149,731
Chief Executive - HIS	97,613	0	97,613	17,375	114,988
Strategic Director /Acting Chief Executive**	97,643	0	97,643	18,259	115,902
Strategic Director /Deputy Chief Executive***	95,016	1,241	96,257	17,768	114,025
Assistant Directors:					
Customer Access	68,765	0	68,765	12,859	81,624
Environment & Regulation	70,367	0	70,367	13,159	83,526
Finance & Property	70,367	0	70,367	13,159	83,526
Housing, Health & Wellbeing	70,367	0	70,367	13,159	83,526
Inward Investment & Growth	67,170	0	67,170	12,560	79,730
Legal & Governance	70,367	0	70,367	13,159	83,526
Neighbourhoods - HIS	69,486	0	69,486	12,368	81,854
Asset Management & Safety - HIS	48,862	0	48,862	9,135	57,997
Finance & Performance - HIS	66,788	0	66,788	11,888	78,676
	1,018,954	**1,241**	**1,020,195**	**188,436**	**1,208,631**

* The Chief Executive left on 31st March 2021

** The Strategic Director took over as Acting Chief Executive from 29th January 2021 until 31st March 2021 (overlap to cover handover period and leave) – full year salary would have been £117,591.

*** The Strategic Director was appointed to a new post of Deputy Chief Executive from 1st February 2021 – full year salary would have been £103,000.

b) The authority's other employees receiving more than £50,000 remuneration for the year (excluding employer's pension costs) were paid the following amounts:

number of employees 2020/21	remuneration band	number of employees 2021/22
5	£50,000 to £54,999	5
0	£55,000 to £59,999	1
0	£60,000 to £64,999	0
0	£65,000 to £69,999	0
1	£70,000 to £74,999	1
0	£100,000 to £104,999	0

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

(a) Exit package cost band (including special payments)	(b) Number of Compulsory redundancies		(c) Number of other departures agreed		(d) Total number of exit packages by cost band		(e) Total cost of exit packages in each band	
	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22
£0-£20,000	0	0	0	1	0	1	0	7,326
£20,001 - £60,000	1	0	2	0	3	0	78,721	0
£80,001 - £100,000	1	0	0	0	1	0	88,090	0
Total	**2**	**0**	**2**	**1**	**4**	**1**	**166,811**	**7,326**

Note 14 Related Parties

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

Central Government

Central government has effective control over the general operations of the Authority – it is responsible for providing the statutory framework within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in note **Government grants and contributions. 1**

Members

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 **Members allowances**. In addition, the Grants Award Sub Committee paid grants totalling £3,500 to voluntary organisations in which members had positions on the governing body or were a member of the organisation. Additional grants and contributions totalling £467,584 were made to organisations in which members had positions on the governing body or were a member. In all instances, the grants/contributions were made with proper consideration of declarations of interest. The relevant members did not take part in any discussion or decision relating to grants. Details of all these transactions are recorded in the Register of Members' Interest, open to public inspection at Bridgwater House during office hours.

Other Public Bodies (subject to common control by central government)

The Council also appoints members to serve on internal drainage boards – 4 members serve on the 2 boards within the district (both boards charged levies, totalling £1,674,409).
Some members are also members of other public bodies within the area – 7 sit on Somerset County Council, 8 on Bridgwater Town Council, 5 on Burnham and Highbridge Town Council and 12 on other Town and Parish Councils. These bodies precept on the District Council for a share of the revenue raised from Council Tax.

After a period of close partnership working, the Waste Collection Authorities and the Waste Disposal Authority within Somerset set up the Somerset Waste Partnership and delegated to it a number of their waste authority functions. The Somerset Waste Partnership is governed by the Somerset Waste Board, comprising 2 elected councillors from each of the 6 partner authorities. The Board is a formal Joint Committee established under section 101 of the Local Government Act 1972. The total cost to Sedgemoor of the waste contract for 2021/22 was £3.379 million.

Entities Controlled or Significantly Influenced by the Authority

SWAP Internal Audit Services Ltd

Sedgemoor District Council is a Member of SWAP which is a company limited by guarantee and is wholly owned and controlled by the members as an in-house company and is a local authority controlled company for the purposes of Part V of the Local Government and Housing Act 1989. The liability of each member is limited to £1, being the amount that each member undertakes to contribute to the assets of the Company in the event of it being wound up while they are a member or within one year after they cease to be a member.

Senior Employees

Ten senior employees are also requested to declare any connections with related parties. These relationships have been considered and there are none of a significant value.

Note 15 Defined Benefit Pension Scheme

Participation in pension schemes

As part of the terms and conditions of employment of its officers, the authority makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the authority has a commitment to make the payments (for those benefits) and to disclose them at the time that employees earn their full entitlement.

The Council participates in the Local Government Pension Scheme, which is a funded defined benefit scheme based on final pensionable salary. The administering authority is Somerset County Council. The most recent actuarial valuation was carried out as at 31st March 2022 and has been updated by the independent Actuary to the Pension Fund to take account of the requirements of IAS19, Retirement Benefits (as amended), in order to assess the liabilities of the fund as at 31st March 2022.

This is a funded defined benefit final salary scheme, meaning that the authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
Liabilities are valued on an actuarial basis using the projected unit method, which assesses the future liabilities discounted to their present value.

Transactions relating to post employment benefits

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 we are required to make against council tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

Comprehensive Income and Expenditure Account

2020/21 £'000		2021/22 £'000
	Cost of Services	
4,380	Current service cost	6,846
13	Curtailments/Settlements/Liabilities	(53)
48	Administration Cost	57
	Financing and Investment Income & Expenditure	
1,868	Net Interest Expense	1,978
6,309	**Total post employment benefit charged to the surplus or deficit on the provision of services**	**8,828**
	Other post employment benefit charged to the Comprehensive Income and Expenditure Statement	
	Remeasurement of the net defined benefit liability comprising	
(22,373)	* Return on plan assets (excluding the amount included in the net interest payable)	(8,150)
0	* Other actuarial gains/(losses) on assets	0
(1,879)	* Remeasurement (gains) and losses arising on changes in demographic assumptions	0
43,683	* Remeasurement (gains) and losses arising on changes in financial assumptions	(9,543)
(2,165)	* Other changes	494
23,575	**Total post employment benefit charged to the Comprehensive Income and Expenditure Statement**	**(8,371)**
	Movement in Reserves Statement	
(6,309)	Reversal of net charges made to the surplus or deficit for the provision of services for post employment benefits in accordance with the code	(8,828)
	Actual amount charged against the General Fund Balance for pensions in the year:	
3,760	Employers contributions payable to the scheme	3,901
329	Retirement Benefits paid to pensioners	322

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31st March 2022 is £27,377,000.

Pensions Assets and Liabilities Recognised in the Balance Sheet

The amounts recognised in the Balance Sheet arising from the authorities obligation of its defined benefit plan is as follows:-

31-Mar-21 £'000		31-Mar-22 £'000
208,026	Present value of funded obligations	205,333
(112,060)	Fair value of plan assets (bid value)	(121,635)
5,074	Present value of unfunded obligations	4,748
101,040	**Net liability recognised in the Balance Sheet**	**88,446**

Reconciliation of the movements in the Fair Value of the scheme assets

2020/21 £'000		2021/22 £'000
88,466	**Balance at 1 April**	112,060
2,070	Expected rate of return	2,233
22,373	Remeasurement gain/(loss)	8,150
4,089	Employer contributions	4,223
0	Settlements	(56)
(48)	Administration expenses	(57)
818	Contributions by scheme participants	857
(5,708)	Benefits paid	(5,775)
112,060	**Balance at 31 March**	**121,635**

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed asset investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

Reconciliation of the movements in the Fair Value of the scheme liabilities

2020/21 £'000		2021/22 £'000
170,020	**Balance at 1 April**	213,100
39,639	Remeasurement Loss/(gain)	(9,049)
4,380	Current service cost	6,846
3,938	Interest cost	4,211
13	Curtailments	0
0	Liabilities Assumed	(109)
818	Contributions by scheme participants	857
(5,379)	Benefits paid	(5,453)
(329)	Unfunded pension payments	(322)
213,100	**Balance at 31 March**	**210,081**

Constitution of the fair value of the scheme assets

31-Mar-21 %	31-Mar-21 £'000		31-Mar-22 %	31-Mar-22 £'000
72	80,675	equities	72	87,693
6	6,392	gilts	5	6,475
10	10,868	other bonds	10	12,113
7	7,733	property	8	9,805
6	6,392	other - cash	5	5,549
100	**112,060**	**TOTAL**	**100**	**121,635**

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent upon assumptions about mortality rates, salary levels, etc. The pension scheme liabilities have been assessed by Barnett Waddingham, an independent firm of actuaries. Estimates for the fund being based on the latest full valuation of the scheme as at 31st March 2022.

The discount rates are based on the annualised yield on the iBoxx over 15 year AA-rated corporate bond index at the relevant date, except for the discount rate for scheme liabilities at 31 March 2004 which is based on the rate determined by the Government Actuary.

The expected return on assets is based on the long term future expected investment return for each class of asset at the beginning of the period (i.e. as at 1st April 2021 for the year to 31st March 2022). The returns on gilts and other bonds are assumed to be the gilt yield and corporate bond yield (with an adjustment to reflect default risk) respectively at the relevant date. The return on equities and property is then assumed to be a margin above gilt yields.

The principal assumptions used by the actuary have been:

Mortality assumptions

31-Mar-21		31-Mar-22
	Longevity at 65 for current pensioners:	
23.1 years	Men	23.1 years
24.6 years	Women	24.7 years
	Longevity at 65 for future pensioners;	
24.4 years	Men	24.4 years
26.0 years	Women	26.1 years

Long-term expected rate of return on assets in the scheme

31-Mar-21		31-Mar-22
2.0% pa	Discount Rate	2.6% pa
2.8% pa	Pension Increases	3.2% pa
3.8% pa	Salary Increases	4.2% pa

Sensitivity Analysis

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analyses changes while all other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

Sensitivity analysis	£'000	£'000	£'000
Adjustment to discount rate	**+0.1%**	**0.0%**	**-0.1%**
Present value of total obligation	206,156	210,081	214,085
Projected service cost	6,027	6,231	6,440
Adjustment to long term salary increase	**+0.1%**	**0.0%**	**-0.1%**
Present value of total obligation	210,469	210,081	209,696
Projected service cost	6,233	6,231	6,227
Adjustment to pension increases and deferred revaluation	**+0.1%**	**0.0%**	**-0.1%**
Present value of total obligation	213,670	210,081	206,559
Projected service cost	6,439	6,231	6,029
Adjustment to life expectancy assumptions	**+1 year**	**none**	**-1 year**
Present value of total obligation	219,816	210,081	200,806
Projected service cost	6,489	6,231	5,981

Impact on the Authority's Cashflow

The objectives of the scheme are to keep employers contributions at as constant a rate as possible. The County Council has agreed a strategy with the schemes actuary to achieve a funding level of 100% over the next three years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31st March 2023. 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 main existing public service schemes may not provide benefits in relation to service after 31st March 2022. 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.

The Authority is anticipated to pay £3,953,000 expected contributions to the scheme in 2022/23.

Annual Governance Statement 2021/22

The Annual Governance Statement once approved will be included here.

Audit Report 2021/22

The auditors report will be included here.

Local Government, in common with many specialised activities, has developed over the years its own unique set of terms and phrases. This glossary helps to identify some of those terms and phrases (more often than not abbreviated in common usage to initial letters only) which will be found in this statement.
Accounting Policies Accounting policies define the process whereby transactions and other events are reflected in financial statements. For example, an accounting policy for a particular type of expenditure may specify whether an asset or a loss is to be recognised; the basis on which it is to be measured; and where in the revenue account or balance sheet is presented.
Accruals basis An accounting convention in which transactions are reflected in the accounts of the period in which they take place as opposed to the period in which payments are made or received.
Actuarial gains and losses For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because: - Events have not coincided with the assumption used by the actuary when carrying out the last valuation experience gains and losses, or - The actuarial assumptions have changed.
Agency arrangements Services performed by or for another Authority or public body, where the agent is reimbursed for the cost of the work done.
ALMO - Arm's Length Management Organisation Sedgemoor District Council has an ALMO, Homes in Sedgemoor Ltd, which manages the housing stock on behalf of the council.
Amortised Cost A mechanism that sees through the contractual terms of a financial instrument to measure the real cost or return to the authority by using the effective interest rate method which incorporates the impact of premiums or discounts.
Apportionments A mechanism for allocating the cost of support services to front line and other services using appropriate bases (e.g. floor space for accommodation related support services) to spread the cost fairly.
Asset An item that is intended to be used for several years such as a building or a vehicle.
Audit of Accounts An examination by an independent expert of an organisation's financial affairs to check that the relevant legal obligations and the codes of practice have been followed.
Balances The accumulated surplus of income over expenditure which can be used to finance expenditure. Amounts in excess of that required for day-to-day cash management and to finance working capital can be invested.
Balance Sheet A financial statement summarising the Council's assets, liabilities and other balances at the end of each accounting period.
Benefits we have awarded for added years Added years are additional pensionable years that an authority may grant when a member of staff retires early because of redundancy or in the efficiency of the service. These additional years will increase the employee's retirement benefit which are paid for by the authority, not the pension fund, and are usually financed from the savings that will be made.

Billing authority A local authority empowered to set and collect council taxes, and manage the Collection Fund, on behalf of itself and local authorities in its area.
Budget Is a financial statement that expresses an organisation's service, delivery plans and capital programmes in monetary terms.
Budget requirement An amount calculated, in advance of each year, by an authority. It is broadly the authority's estimated net revenue expenditure allowing for movement in reserves. It is, therefore, the estimate of the amount to be met from revenue support grant, redistributed non-domestic rates and any additional grant, and from council tax income.
Business Rates (Non-Domestic Rate – NDR) Businesses pay business rates instead of Council Tax. Each year, the Government sets the rate in the pound and business rates are collected by the billing authority. The amount charged is based on multiplying the rateable value of each business property by the national rate in the pound.
Business Rates Retention The Business Rates Retention model replaced the previous funding formula which saw all business rates collected being paid over to central government to be allocated back on a formula basis. The new scheme was implemented from 1 April 2013 and the government set each Local Authority a baseline. This was based on the current levels of funding under the previous formula scheme. BRR is based on 50% of business rates collected being retained by the Local Authorities (40% District, 9% County, 1% Fire).
Capital Adjustment Account Is a reserve created from the balances on the Capital Financing Account and Fixed Asset Restatement Account as at 31 March 2007. This account records the consumption of historic cost over the life of the asset and deferred charges over the period that the authority benefits from the expenditure. The account will also record the resources set aside to finance capital expenditure.
Capital Charges Represent the cost to services for the use of fixed assets in the provision of their services; the charges reflect depreciation and impairment.
Capital Contributions/Grants Are monies received from external bodies towards the financing of capital expenditure on a particular service or scheme.
Capital Expenditure Expenditure on the acquisition of a non current asset or expenditure which adds to and not merely maintains the value of an existing asset. The statutory definition extends to: - The acquisition, reclamation, enhancement or laying out of land, exclusive of roads, buildings and other structures; - The acquisition, construction, preparation, enhancement or replacement of roads, buildings and other structures; - The acquisition, installation or replacement of movable or immovable plant, machinery and apparatus and vehicles and vessels; - The making of advances, grants or other financial assistance to any person towards expenditure incurred or to be incurred by him on matters mentioned in the three categories above or in the acquisition of investments; - The acquisition of share or loan capital in any body corporate.

Capital grants
Grants received towards Capital Expenditure incurred on specific schemes.

Capital Programme
Our plan of future spending on capital projects such as buying land, buildings, vehicles and equipment.

Capital Receipts
Monies from the sale of assets, which can finance capital expenditure or repay any outstanding loan debt according to rules set down by Central Government. Capital receipts can be used to finance new capital expenditure within rules set by central government, but they cannot be used to finance day-to-day spending.

Capping
This is a power under which the Government may limit the maximum level of local authority spending or increase in that level year on year, which it considers excessive. It is a tool to restrain increases in council tax.

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

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

Cash Limited Budgets
Are fixed sums of money, including allowances for pay and price increases, allocated to services, and within which all spending should be met; this also involves flexibility in the carrying forward of under and over-spending.

CIPFA
Chartered Institute of Public Finance and Accountancy. CIPFA is one of the major accountancy institutes but specialises in the public sector.

Collection Fund
The Collection Fund is a separate statutory fund, which details the transactions in relation to non-domestic rates and the council tax, and the distribution to preceptors and the General Fund. The Collection Fund is consolidated with the other accounts of the authority.

Community Assets
These are assets which the authority intends to hold in perpetuity and that have no determinable useful life. There are often restrictions on their disposal, for example, as a result of covenants or trust status. Examples of community assets are cemeteries, parks and allotments.

Consistency
Is one of the fundamental accounting concepts. It requires accountants to treat similar items of income and expenditure the same way – both within an accounting period and from one accounting period to the next.

Contingent Asset
A contingent asset is a possible asset arising from past events whose existence will only be confirmed by the occurrence of one or more uncertain future events not wholly within the local authority's control.

Contingent Liability
A contingent liability is either:

- A possible obligation arising from past events whose existence will only be confirmed by the occurrence of one or more uncertain future events not wholly within the local authority's control, or

- A present obligation arising from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

Corporate and Democratic core
Spending relating to the need to co-ordinate and account for the many services we provide to the public including the cost of member representation and activities associated with public accountability.

Council Tax
A banded property tax levied on domestic properties in the District. The banding is based on estimated property values.

Council Tax Base
An assessments by each billing authority of the number of converted to Band D equivalents (the average band), after properties, allowing for non-collection and new properties, on which a tax can be charged.

Council Tax surpluses/losses
The District Councils' tax bases are calculated using estimated collection rates. Actual collection rates in a given year may give rise to a surplus/deficit to be taken into account when setting tax levels for the following year. Amounts in respect of Council Tax are shared between the District Council concerned, the County Council, the Fire and Rescue Service and the Police Authority pro-rata to the share of the aggregate of the precepts and demands on the collection fund. These surpluses and losses are applied to reduce or increase the spending of the authority.

Credit Risk
The risk that one party to a financial instrument will cause a loss for the other party by falling to discharge an obligation.

Creditors
Amounts owed for goods and services provided for which payment has not been made at the end of the financial year.

Current assets
These are short-term assets that constantly change in value such as inventories, debtors and bank balances.

Current Liabilities
Monies that are due to be paid in less than one year such as bank overdrafts and money owed to suppliers.

Current service cost (pensions)
A term used in accounting for retirement benefits. The current service cost is an estimate of the true economic cost of employing people in a financial year, earning years of service that will eventually entitle them to a lump sum and pension when they retire. It measures the full liability estimated to have been generated in the year (at today's prices) and is thus unaffected by the pension fund being in deficit or surplus. It is based on the most recent actuarial valuation adjusted by updated financial assumptions to reflect conditions.

Curtailment (pensions)
For a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include:

- Termination of employees' services earlier than expected, for example as a result discounting a segment of a service, and
- Termination or amendment to the terms, of a defined benefit scheme so that some or all future services by current employees will no longer qualify for benefits or will qualify only for reduced benefits.

Debtors Sums of money due to the Council but not received at the end of the financial year.
Demand on the Collection Fund This represents the amount calculated by a billing authority (Sedgemoor District Council is a billing authority) to be transferable from its Collection Fund to its General Fund.
Depreciation Depreciation is the measure of the cost or revalued amount of the benefit of the fixed asset that has been consumed during the period. Consumption includes the wearing out, using up or other reduction in the useful economic life of a fixed asset, whether arising from use, passage of time or obsolescence.
Derecognition Is the term used for the removal of a financial instrument from the balance sheet. This will normally occur when the contractual rights to the cash flows arising from the instrument expire or are transferred.
Discretionary benefits (pensions) Retirement benefits that the employer has no legal, contractual or constructive obligation to award and are awarded under the authority's discretionary powers.
Earmarked Reserves Money set aside in a reserve for a specific purpose.
Effective Interest Rate Is the rate of interest that will discount all the cash flows that will take place throughout the expected life of a financial instrument down to the fair value of the instrument calculated at initial measurement.
Estimation Techniques The methods adopted by the Council to arrive at estimated monetary amounts, corresponding to the measurement bases selected for assets, liabilities, gains, losses and changes to reserves.
Existing Use Value The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction.
Fair Value (Financial Instruments) Is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction. If available, this will be a published price quotation in an active market; otherwise, alternative valuation techniques will be employed.
Fair Value (Non Current Assets) Is the price at which an asset could be exchanged in an arm's-length transaction less, where applicable, any grants receivable towards the purchase of use of that asset.
Finance Lease Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of property.
Financial Instruments Are any contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another. In practice these include bank deposits, loans, investments, borrowings and other receivables or payables.
Financial Instruments Adjustment Account Is the account which holds the differences between the amounts credited to the Income and Expenditure Account in accordance with the SORP and the interest income required to be credited to the General Fund in accordance with statutory regulations.
Financial Year For local authorities, financial years start on 1 April and end on 31 March.

Financing Transactions Relate, in the main, to interest payments and receipts associated with the management during the year of the Council's cash flow and reserves.
Floor Limit The minimum level of grant, as determined by government, that an authority will receive.
General Fund (GF) The General Fund is the main revenue fund of the Authority. This account includes the net cost of all services financed by local taxpayers and Government grants.
General Fund Balance Compares the Council's spending against the Council Tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.
Government Grants Are made by the Government towards either revenue or capital expenditure to help with the cost of providing services and capital projects. Some government grants have restrictions on how they may be used whilst others are general.
Gross Expenditure The overall cost of providing our services before allowing for government grants or other income.
Heritage Asset An asset which is held principally for its contribution to knowledge and culture.
Housing Benefit Financial help given to local authority or private tenants whose income falls below prescribed amounts. Central government finances most of the cost of benefits to non-HRA tenants ('rent allowances') and the whole of the cost of benefits to HRA tenants (through the rent rebate element of housing subsidy). Some local authorities operate 'local schemes' whereby they finance allowances in excess of the standard payments.
Housing Revenue Account (HRA) The Housing Revenue Account is a statutory account maintained separately from General Fund services. It includes all revenue expenditure and income relating to the provision, maintenance and administration of Council Housing and associated areas.
International Financial Reporting Standards (IFRS) Financial Reporting Standards are accounting standards which set out the framework and requirements that need to be adopted for certain transactions in the published accounts.
Impairment The drop in value of a fixed asset caused by either a consumption of economic benefits or a general fall in prices.
Infrastructure assets These are fixed assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created. Examples of infrastructure assets are highways and footpaths.
Income Is the amount which the Council receives, or expects to receive, from any source; service committee revenue income includes grants, sales, rents and fees and charges.
Income and Expenditure Account Is the organisation's main revenue account. It records the income received from Council tax and business rate payments, grants and other fees and charges. It also records the expenditure made as services are provided.
Interest rate risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.
Inventories Goods bought which have not yet been used.
Investment Properties Interest in land and/or buildings which is held for their investment potential, with any rental income being negotiated at arm's length.
Liabilities Money we will have to pay to people or organisations in the future.
Liquid (Resources) / Liquidity Current asset investments that are readily disposable without disrupting the business and are either readily convertible into known amounts of cash at or close to the carrying amount, or traded in an active market.
Long-term Investments Investments with more than 364 days until maturity.
Major Repairs Allowance (MRA) Was an allowance received as part of the Housing Subsidy grant.
Major Repairs Reserve (MRR) The MRR is a reserve to which depreciation is transferred. The balance on the account will be used to finance future major housing repairs.
Market Risk The risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk; currency risk, interest rate risk, and other price risk.
Materiality Is one of the main accounting concepts. It ensures that the statement of accounts includes all the transactions that, if omitted, would lead to a significant distortion of the financial position at the end of the accounting period.
Minimum Revenue Provision (MRP) The MRP is the statutory minimum amount that the council must set aside to repay loans.
Net Asset Value The total value of an organisation's assets, less its liabilities and capital charges.
Net Book Value (NBV) This is the amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative depreciation.
Net Realisable Value The open market value of the asset in its existing use (or market value in the case of non-operational assets), less expenses to be incurred in realizing the asset.
New Homes Bonus NHB is awarded for each new home built within the district recorded on the CTB1 form (October to October each year).
Non-distributed costs Past service pension costs including settlements and curtailments which are not to be included in total individual service costs.
Operating Leases These are leases under which an entity pays for the use of an asset but does not get the risks and rewards of ownership.
Other Operating Costs Includes expenditure on buildings, fuel, light, rent, rates, and purchase of furniture and equipment.

Overheads Spending on items not directly related to the supply of our services, for example, office cleaning costs.
Past service cost (pensions) The past service cost is the extra liability that arises when the council grants extra retirement benefits that did not exist before. For instance, where early retirement has been granted with added-on years of service.
Pensions interest cost and expected return on assets The net interest cost is the increase in the value of the pension scheme liabilities that arise because those liabilities are one year closer to being paid. The expected return on assets is the forecast of accrued benefit from investments of the pension fund in the long-term.
Petty Cash Small sums of cash kept by services to pay minor expenses.
Precepts This is a charge levied by one Council, which is collected on its behalf by a billing authority by adding the precept to its own Council Tax and paying over the appropriate cash collected.
Prior period adjustments Those material adjustments applicable to prior years which arise from changes in accounting policies or from the correction of fundamental errors.
Provisions An amount set aside to provide for a liability, which is likely to be incurred, but the exact amount and the date it will arise is uncertain.
PWLB Is the Public Works Loan Board, a Government agency which lends money to the public sector.
Prudence Is one of the main accounting concepts. It ensures SDC only includes income in its accounts if it is sure it will receive money.
Rateable Value (RV) A value placed on all non-domestic properties (businesses) on which rates have to be paid, broadly based on the rent that the property might earn, after deducting the cost of repairs and insurance. The rateable value is determined by the Inland Revenue's Valuation Office Agency.
Reconciliation A reconciliation explains how figures are worked out, and shows how they are used in different statements in our accounts.
Related Parties Are when at any time during the financial period:- - One party has direct or indirect control of the other party - The parties are subject to common control from the same source - One party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing its own interests - The parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own interests.
Related Party Transaction Is the transfer of assets or liabilities, or the performance of services by, to or for a related party irrespective of whether or not a charge is made.
Reimbursements Payments we receive for work we do for other public organisations, for example, the Government.
Remuneration All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by the employer are excluded.

Reserves A reserve is an amount set aside for a specific purpose in one financial year and carried forward to meet expenditure in future years.
Residual Value The net value of an asset that can be reasonably expected from its sale at the end of its useful life.
Restated This is where the Council has changed figures that it has published in the past to show like-for-like comparisons with later year's figures.
Revaluation Reserve Is a new reserve which records the unrealised revaluation gains arising since the 1 April 2007 from holding fixed assets. Previously such gains were credited to the Fixed Asset Restatement Account.
Revenue Expenditure Spending on the day-to-day running of services – mainly salaries running expenses of buildings and equipment, and capital charges. These costs are met from the Council Tax, government grants, fees and charges.
Revenue support grant (RSG) A Government grant that does not vary with a local authority's spending and is designed to compensate for differences in costs of providing a standard level of service.
Short-term investments Short-term investments are those with less than 364 days until maturity.
Specific Grants Payments from the Government to cover local-authority spending on a particular service or project. Specific grants are usually a fixed percentage of the costs of a service or project.
Surplus The remainder after taking away all expenses from income.
Tax Base The tax base is an assessment by each billing authority of the likely yield of a Council Tax of £1, taking into account the number of properties on which a tax can be levied. The tax base counts properties as Band D equivalents. For setting Council Tax, the tax base is based on the District Council's number of Band D equivalent properties within each local authority area, allowing for non-collection of Council Tax and new properties.
Total Gross Expenditure Gross spending, taking all local authority accounts together after eliminating double counting of flows between services, accounts and other authorities, where this is possible. Total gross expenditure is divided into gross revenue expenditure and gross capital expenditure.
Trading services Local authority services which are, or are generally intended to be, financed mainly from charges levied on the users of the service.
Unallocated Reserves The remaining revenue balances, after deducting the earmarked revenue reserves, which have not been set aside to meet particular spending needs.
Unapportionable central overheads Costs that do not relate to a single service or services and are therefore held centrally.
Virement The transfer of budget from one spending head to another. Limits on the amount of transfers are specified in the Council's Financial Regulations.

Somerset Council

SDC – Grant Thornton External Audit Plan for Financial Year 2022/23

Executive Member(s): Cllr Liz Leyshon Deputy Leader and Lead Member for
Lead Officer: Jason Vaughan – Executive Director Resources and Corporate Services
Author: Donna Parham – Head of Corporate Finance
Contact Details: donna.parham@somerset.gov.uk

1. Summary / Background

The external audit 2022/23 for Sedgemoor District Council has yet to be completed. The attached appendix sets out the external auditors Audit Plan. The audit is due to start on the 25th September 2023.

The Somerset Council Audit Committee will need to provide the governance overview and consideration of all legacy Councils outstanding Statement of Accounts. This will include 2021/22 for South Somerset District Council, Mendip District Council, and Sedgemoor District Councils as well as 2022/23 for those Councils plus Somerset Council and Somerset West and Taunton Council.

2. Recommendations

The Audit Committee

2.1. Notes the attached external auditors (Grant Thornton) Audit Plan for Sedgemoor District Council for 2022/23.

3. Reasons for recommendations

The Audit Committee terms of reference include:

- Monitoring of the arrangements and preparations for financial reporting to ensure that statutory requirements and professional standards can be met.

- Reviewing the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.
- To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

4. **Other options considered**

No other options have been considered

5. **Links to Council Plan and Medium-Term Financial Plan**

It is important for Somerset Council to ensure that all audits are completed and an opinion provided for all legacy Councils. This ensures that the opening balances for the new Council are correct. This is particularly important for reserves and capital receipts to ensure that the Council can plan effectively.

6. **Financial and Risk Implications**

There are no financial implications of noting this report.

7. **Legal Implications**

There are no legal implications of approving the recommendations.

8. **HR Implications**

There are no HR implications of approving this report.

9. **Other Implications:**

10. **Equalities Implications**

There are no equalities implications from approving this report.

11. **Community Safety Implications**

There are no community safety implications from approving this report.

12. **Climate Change and Sustainability Implications**

Somerset Council have declared both a Climate and Ecological Emergency. Through that, the Council has committed to working towards making the whole county, including our own estate and operations, 'Carbon Neutral' by 2030 and to take positive action to reverse the damage on our natural habitats by man-made activity. We have also pledged to ensure that Somerset is resilient to, and prepared for, the effects of Climate Change. There are no implications from approving this report.

13. **Health and Safety Implications**

There are no health and safety implications from approving this report.

14. **Social Value**

There are no social value implications from approving this report.

15. **Background**

On the 1st April 2023 Somerset Council replaced the five legacy Councils of Somerset County Council, Mendip District Council, Sedgemoor District Council, Somerset West and Taunton Council and South Somerset District Council. At that date the following Councils had yet to receive audit opinions as follows:

- Mendip District Council – 2021/22
- Sedgemoor District Council - 2020/21 and 2021/22(2020/21 has since received the final audit opinion and this report should conclude 2021/22)
- South Somerset District Council - 2021/22

Somerset Council must provide 2022/23 Statement of Accounts for each of the legacy Councils and the Pension Fund. This has been resource intensive. All accounts are now published and are at different stages of the audit process.

16. **Report**

This report requests that the Audit Committee notes the external auditors (Grant Thornton) Audit Plan for the 2022/23 Sedgemoor District Council Accounts. This is due to begin on the 25th September 2023. David Johnson from Grant Thornton will be attending the committee in person to go through the Audit Plan.

17. **Background Papers**

Report to Executive Committee 2nd August 2023.

18. **Appendices**

- As attached

Sedgemoor District Council audit plan

Year ending 31 March 2023

September 2023

Contents

Your key Grant Thornton team members are:

Julie Masci
Key Audit Partner
T 0292 034 7506
E julie.masci@uk.gt.com

David Johnson
Audit Manager
T 0117 305 7727
E david.a.johnson@uk.gt.com

Mustafa Ali Karwani
In Charge Accountant
T 0117 305 7845
E mustafa.ali.karwani@uk.gt.com

Page 222

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.

Key matters

National context

For the general population, rising inflation rates, in particular for critical commodities such as energy, food and fuel, is pushing many households into poverty and financial hardship, including those in employment. At a national government level, recent political changes have seen an emphasis on controls on spending, which in turn is placing pressure on public services to manage within limited budgets.

Local Government funding continues to be stretched with increasing cost pressures due to the cost of living crisis, including higher energy costs, increasing pay demands, higher agency costs and increases in supplies and services. Local authority front-line services play a vital role in protecting residents from rising costs; preventing the most vulnerable from falling into destitution and helping to build households long-term financial resilience. At a local level, councils are also essential in driving strong and inclusive local economies, through their economic development functions and measures like increasing the supply of affordable housing, integrating skills and employment provision, and prioritising vulnerable households to benefit from energy saving initiatives. Access to these services remains a key priority across the country, but there are also pressures on the quality of services. These could include further unplanned reductions to services and the cancellation or delays to major construction projects such as new roads, amenities and infrastructure upgrades to schools, as well as pothole filling.

Our recent value for money work has highlighted a number of governance and financial stability issues at a national level, which is a further indication of the mounting pressure on audited bodies to keep delivering services, whilst also managing transformation and making savings at the same time.

In planning our audit, we will take account of this context in designing a local audit programme which is tailored to your risks and circumstances.

Audit Reporting Delays

In a report published in January 2023 the NAO have highlighted that since 2017-18 there has been a significant decline in the number of local government body accounts including an audit opinion published by the deadlines set by government. The NAO outline a number of reasons for this and proposed actions. In March 2023, we issued About time?, which explored the reasons for delayed publication of audited local authority accounts. In our view, it is critical to early sign off that draft local authority accounts are prepared to a high standard and supported by strong working papers.

Council developments

On 1 April 2023 the Council, along with the District Councils for Mendip, Somerset West and Taunton, South Somerset and Somerset County Council transitioned to a single unitary authority. The impact of this reorganisation will be considered as part of our value for money work. We also expect to include an Emphasis of Matter paragraph within our audit report when this is issued.

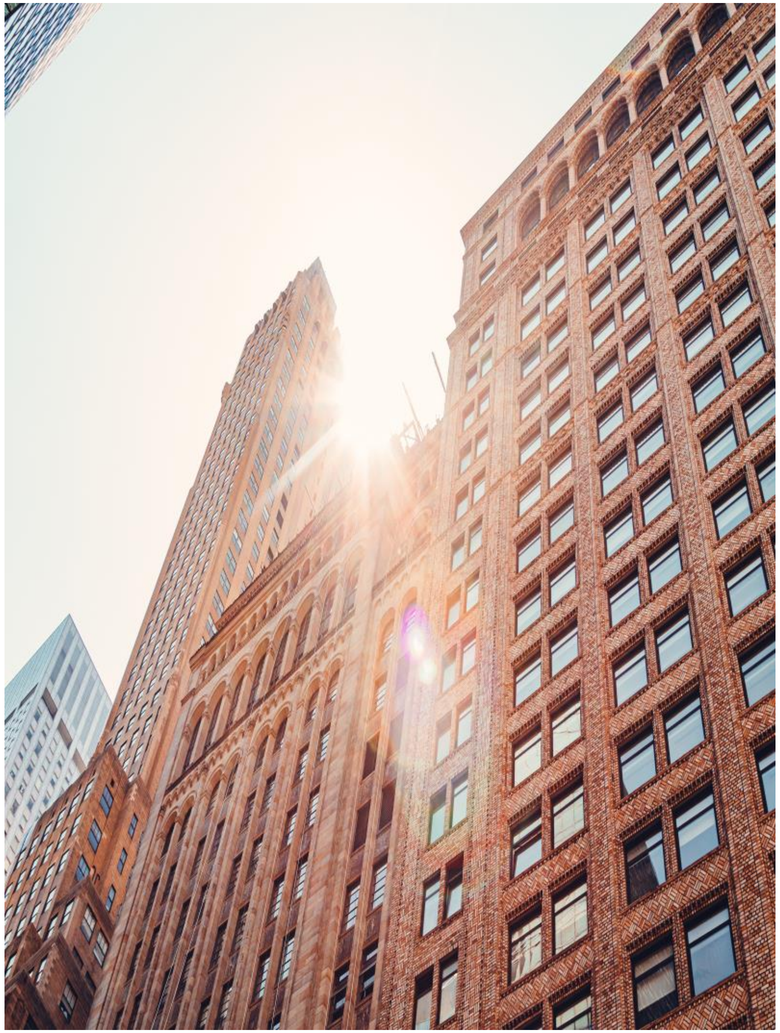
Key matters

Page 224

Our Responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out further in our Audit Plan, has been agreed with Somerset Council's S151 Officer, as the successor body.
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money work.
- Our value for money work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness.
- We will continue to provide you and your Audit Committee with sector updates providing our insight on issues from a range of sources and other sector commentators via our Audit Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretation, discuss issues with our experts and create networking links with other audited bodies to support consistent and accurate financial reporting across the sector.

Introduction and headlines



Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Sedgemoor District Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Sedgemoor District Council. We draw your attention to both of these documents.

Page 225

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council group's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit committee); and we consider whether there are sufficient arrangements in place at the Council and group for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

Introduction and headlines

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- management override of controls;
- valuation of land and buildings, including Council Dwellings;
- valuation of investment property; and
- valuation of the pension fund net liability.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Group Audit

The Council is required to prepare group financial statements that consolidate the financial information of Homes in Sedgemoor.

Materiality

We have determined planning materiality to be £1.535m (PY £1.480m) for the group and £1.485m (PY £1.460m) for the Council, which equates to 2% of your gross operating costs for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £75k (PY £73k) for the group and the Council

Value for Money arrangements

We identified a significant weakness in arrangements in 2021-22 in regard to the Council's failure to comply with the requirements of the CiPFA Treasury Management Code and the Treasury Management Strategy was not presented to Council. We will formally follow up in 2022-23. Therefore, our risk assessment regarding your arrangements to secure value for money has identified the following risks of significant weakness:

- Arrangements for transition to the new Unitary Authority.
- Governance arrangements for ensuring compliance with statutory requirements

New Auditing Standards

There are two auditing standards which have been significantly updated this year. These are ISA 315 (Identifying and assessing the risks of material misstatement) and ISA 240 (the auditor's responsibilities relating to fraud in an audit of financial statements). We provide more detail on the work required later in this plan.

Audit logistics

Our planning and our final visit will take place between September and December 2023. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our proposed fee for the audit will be £69,709 (PY: £74,959) for the Council, subject to the Council delivering a good set of financial statements and working papers and no significant new financial reporting matters arising that require additional time and/or specialist input.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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.

Significant risks identified

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.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
ISA240 revenue risk - the Council's reported revenue contains fraudulent transactions (rebutted)	All group entities	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Sedgemoor District Council, mean that all forms of fraud are seen as unacceptable. • The majority of income in subsidiaries is a single source of funding from the Council in the form of a small number of management fees or loan transactions which are easily verifiable. This, along with minimal third party income, means there a limited opportunities to manipulate revenue. Therefore we do not consider this to be a significant risk for Sedgemoor District Council.
The expenditure cycle includes fraudulent transactions (rebutted)	All group entities	Practice note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states: "As most public bodies are net spending bodies, then the risk of material misstatements due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition." Public sector auditors therefore, need to consider whether they have any significant concerns about fraudulent financial reporting of expenditure which would need to be treated as a significant risk for the audit	We have considered both pay and non pay costs and considered there to be little opportunity for fraudulent transactions. Pay costs are determined by employee contracts and are standard monthly payments. Non pay costs are based on supplier invoice transactions and have to be paid within a set timeframe. As part of the audit will consider the completeness, accuracy and occurrence of expenditure transactions by: • Evaluating the design and implementation effectiveness of the accounts payable process • Testing a sample of transactions incurred around the year end to ensure these have been accounted for in the appropriate financial period • Testing a sample of accruals made at year end that have not yet been invoiced to assess whether the valuation has been calculated on an appropriate basis.

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

Significant risks identified

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.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	All entities	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting high risk unusual journals; • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.
Valuation of land and buildings (Annual Revaluation)	Council	The group revalue its land and buildings, including HRA properties, on an annual basis to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets) at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Management have engaged the services of a valuer to estimate the current value as at 31 March 2023. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • discuss with the valuer the basis on which the valuations were carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • test, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Council's asset register • test, on a sample basis, revaluations of Beacon Properties made during the year to ensure that HRA properties have been appropriately valued and input correctly into the Council's asset register • evaluate the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value

Significant risks identified

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.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Investment Properties	Council and Aspen Housing & Development ltd	The Council revalue Investment Properties annually. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£36.6m) and the sensitivity of this estimate to changes in key assumptions. We therefore identified valuation of Investment Properties, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuations were carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding. • test, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authority's asset register
Valuation of the pension fund net liability	Council and Homes in Sedgemoor	The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£22.2m in its balance sheet) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • update 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 evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • test 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; • undertake 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 • obtain 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.

Page 229

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
Sedgemoor District Council	Yes		• See pages 7 - 9 for significant risks identified for Sedgemoor District Council	Full scope audit performed by Grant Thornton UK LLP
Homes in Sedgemoor	Yes		• Management override of controls • Valuation of the Pension Fund net liability	Full scope audit performed by Homes In Sedgemoor to be performed by Bishop Fleming. The nature, time and extent of our involvement in the work of Bishop Fleming will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the Bishop Fleming audit documentation and meeting with appropriate members of management.
Aspen Housing & Development Ltd	No		• Valuation of Investment property	Aspen Housing has one asset that is contained within the group balance sheet. We have included this asset in our PPE work to ensure that is appropriately valued.
Sedgemoor Group Ltd	No		• No specific risks identified	Analytical review performed by Grant Thornton UK LLP

Key changes within the group:

There have been no key changes within the Group.

Audit scope

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

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2022/23 financial statements, consider and decide upon any objections received in relation to the 2022/23 financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
  - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, 'irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure'. All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

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.

Matter	Description	Planned audit procedures
1	**Determination** We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Council for the financial year. Materiality at the planning stage of our audit is £1.535m (group) and £1.485m (Council) , which equates to 2% of your gross expenditure for the period.	We determine planning materiality in order to: – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements – assist in establishing the scope of our audit engagement and audit tests – determine sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements
2	**Reassessment of materiality** Our assessment of materiality is kept under review throughout the audit process.	We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.
3	**Other communications relating to materiality we will report to the Audit Committee** Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.	We report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. In the context of the Group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £75k (PY £73k). If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

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.

Page 233

	Amount (£)	Qualitative factors considered
Materiality for the Council financial statements	1,485,000	This is equivalent to approximately 2% of the gross expenditure of the Council for the financial year, and is the same percentage and measure as the previous year.
Performance materiality	1,110,000	We have determined performance materiality at 75% of the materiality. Our rationale is as follows: • Senior management and key reporting personnel in the finance function have remained stable from the prior year audit. • There were a low number of misstatements and recommendations arising as a result of the financial statements audits in the prior years so we have a considered 75% remains appropriate
Trivial matters	75,000	Set at 5% of materiality.

IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs. We say more about ISA 315 Revised on slide 18.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Spend/Income	Planned level IT audit assessment
Civica Financials	Financial reporting	£20,630k	• Streamlined ITGC design assessment
Revs and Bens	Council Tax, Business Rates and Benefits	£17,275k	• Streamlined ITGC design assessment
Frontier	Payroll	£22,245k	• Streamlined ITGC design assessment
Active Directory	Network	N/A	• Streamlined ITGC design assessment

Value for Money arrangements

The National Audit Office issued its latest Value for Money guidance to auditors in January 2023. The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body's arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.

Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services.

Governance

How the body ensures that it makes informed decisions and properly manages its risks.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, 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

Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work.

Risks of significant weakness

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money.

Arrangements for transition to the new Unitary Authority

Local Government reorganisation in Somerset has resulted in the 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 appropriate arrangements were not in place to support a successful transition.

To address the risk we will undertake the following work:

- consider the arrangements that were put in place during 2022-23 to support a successful transition across key financial and governance workstreams; and
- assess how the Council worked with its partners to support the change as at 1 April 2023

We anticipate being able to achieve this by reviewing meeting papers and minutes and interviewing those officers responsible for transition workstreams

Treasury Management Strategy

The 2021-22 AAR identified a significant weakness in relation to compliance with the CiPFA Treasury Management Code and management's failure to submit the Treasury Management Strategy to Council for approval. This remains a risk in 2022-23 and we will:

- Review arrangements in place for ensuring that formal approval of the Treasury Management Strategy has been provided in line with the requirements of the Code.

We anticipate being able to achieve this by review of meeting minutes and management's governance processes

Audit logistics and team

Planning and risk assessment

Audit committee
27 September 2023
Audit Plan

Interim audit
Sept 2023

Year end audit
Sept – Dec 2023

Audit committee
TBC
Audit Findings Report/Audit Opinion

Audit committee
January 2024
Auditor's Annual Report

Page 237

Julie Masci, Key Audit Partner

Julie leads our relationship with you and is a key contact for the Chief Executive, Director of Resources and the Audit Committee. Julie takes overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Council.

David Johnson, Audit Manager

David's role involves overseeing the day to day planning and execution of the audit, ensuring the audit requirements are fully complied with and producing reports for the Audit Committee. He will respond to ad-hoc queries whenever raised and meet regularly with the Director of Resources and members of the finance team.

Audited Entity responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audited bodies. Where the elapsed time to complete an audit exceeds that agreed due to an entity not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to an entity not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to :

- ensure that you produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees and updated Auditing Standards including ISA 315 Revised

In 2017, PSAA awarded a contract of audit for Sedgemoor District Council to begin with effect from 2018/19. The fee agreed in the contract was £42,358. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2022/23 audit. For details of the changes which impacted on years up to 2021/22 please see our prior year Audit Plans.

The major change impacting on our audit for 2022/23 is the introduction of ISA (UK) 315 (Revised) - Identifying and assessing the risks of material misstatement ('ISA 315'). There are a number of significant changes that will impact the nature and extent of our risk assessment procedures and the work we perform to respond to these identified risks. Key changes include:

- Enhanced requirements around understanding the Council's IT Infrastructure, IT environment. From this we will then identify any risks arising from the use of IT. We are then required to identify the IT General Controls ('ITGCs') that address those risks and test the design and implementation of ITGCs that address the risks arising from the use of IT.
- Additional documentation of our understanding of the Council's business model, which may result in us needing to perform additional inquiries to understand the Council's end-to-end processes over more classes of transactions, balances and disclosures.
- We are required to identify controls within a business process and identify which of those controls are controls relevant to the audit. These include, but are not limited to, controls over significant risks and journal entries. We will need to identify the risks arising from the use of IT and the general IT controls (ITGCs) as part of obtaining an understanding of relevant controls.

These are significant changes which will require us to increase the scope, nature and extent of our audit documentation, particularly in respect of your business processes, and your IT controls. We will be unable to determine the full fee impact until we have undertaken further work in respect of the above areas. However, for an authority of your size, we estimate an initial increase of £3,000. We will let you know if our work in respect of business processes and IT controls identifies any issues requiring further audit testing. There is likely to be an ongoing requirement for a fee increase in future years, although we are unable yet to quantify that.

The other major change to Auditing Standards in 2022/23 is in respect of ISA 240 which deals with the auditor's responsibilities relating to fraud in an audit of financial statements. This Standard gives more prominence to the risk of fraud in the audit planning process. We will let you know during the course of the audit should we be required to undertake any additional work in this area which will impact on your fee.

Taking into account the above, our proposed work and fee for 2022/23, as set out below, is detailed overleaf [and has been agreed with the Director of Finance].

Audit fees

	Actual (or estimated) Fee 2021/22	Proposed fee 2022/23
Council Audit	£74,959	£69,709
Total audit fees (excluding VAT)	£74,959	£69,709

Page 239

Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

Revised scale fee published by PSAA	£49,859
Additional audit requirements relating to journals and grants testing	£3,000
Additional work on Value for Money (VfM) under new NAO Code	£9,000
Increased audit requirements of revised ISAs 540	£2,100
Increased audit requirements of ISA315 revised	£3,000
Group audit	£1,500
Additional Collection fund testing	£750
Payroll change of circumstances testing	£500
Total proposed audit fees 2022/23 (excluding VAT)	*£69,709*

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 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.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Independence and non-audit services

Other services

The following other services provided by Grant Thornton were identified.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Page 242

Service	Fees	Threats	Safeguards
Non-Audit related			
Agreed upon procedures on the Pooling of Housing Capital receipts return	£7,500	Self-Interest (because these are recurring fees) Self review (because the financial information in the returns are included within the Council's financial statements) Management (because we may make recommendations to management)	The level of recurring fees taken on their own and in totality are not considered a significant threat to independence as the when compared to the total fee for the audit and in particular are not significant relative to Grant Thornton UK LLP's turnover overall. Further, they are fixed fees and there are no contingent elements. We do not prepare the returns which we are auditing and do not expect material misstatements to the financial statements to arise from this work. The factual accuracy of our report, including any representations from management, are agreed with informed management. These factors all mitigate the perceived threats to an acceptable level.
Agreed upon procedures on the Housing Benefits subsidy claim	£30,000*		

*Final Housing Benefit fee is still subject to agreement. Estimated fee is based on expected level of work required to complete audit.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•	
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	•	•
Views about the qualitative aspects of the Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		n/a
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud(deliberate manipulation) involving management and/or which results in material misstatement of the financial statements (not typically council tax fraud)		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

Grant Thornton

grantthornton.co.uk

Approval of Pension Fund Accounts 2022-23

Lead Officer: Jason Vaughan – Executive Director Resources and Corporate Services
Author: Anton Sweet, Service Manager - Investments
Contact Details: asweet@somerset.gov.uk or (01823) 359584

1. **Summary / Background**

As part of the formal process of closing the Pension Fund's 2022-23 accounts, the Chief Financial Officer is required to approve the draft Statement of Accounts, this has already been done. The Audit Committee is subsequently required to approve the audited accounts.

Grant Thornton have completed their audit work and have issued The Audit Findings Report for the pension fund and this is included in the papers. The report, which will be presented by our external auditors, summarises the findings from the 2022-23 audit of the Pension Fund financial statements.

The report is a very positive report for the Pension Fund. The report indicates that, subject to the completion of outstanding work Grant Thornton anticipate issuing an unqualified audit opinion.

2. **Recommendations**

The Audit Committee is asked to:

- Consider the matters raised in Grant Thornton's report;
- Approve the audited accounts of the Pension Fund for 2022-23; and
- Note the letter of representation this will be formally signed along with the Somerset County Council letter of representation on the completion of the Somerset County Council audit.

3. **Reasons for recommendations**

The Audit Committee terms of reference include:

- Monitoring of the arrangements and preparations for financial reporting to ensure that statutory requirements and professional standards can be met.
- Reviewing the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.
- To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

4. **Other options considered**

No other options have been considered

5. **Links to Council Plan and Medium-Term Financial Plan**

It is important for Somerset Council to ensure that all audits are completed and an opinion provided for all legacy Councils. This ensures that the opening balances for the new Council are correct. This is particularly important for reserves and capital receipts to ensure that the Council can plan effectively.

6. **Financial and Risk Implications**

There are no financial implications of approving the accouts.

7. **Legal Implications**

There are no legal implications of approving the recommendations.

8. **HR Implications**

There are no HR implications of approving this report.

9. **Other Implications:**

9.1. Equalities Implications

There are no equalities implications from approving this report.

9.2. Community Safety Implications

There are no community safety implications from approving this report.

9.3. Climate Change and Sustainability Implications

There are no climate change and sustainability implications from approving this report.

9.4. Health and Safety Implications

There are no health and safety implications from approving this report.

10. Social Value

There are no social value implications from approving this report.

This page is intentionally left blank

The Audit Findings Report for Somerset Pension Fund

Year ended 31 March 2023

September 2023

Contents

Page 250

Your key Grant Thornton team members are:

Julie Masci
Key Audit Partner
E Julie.masci@uk.gt.com

Liam Royle
Manager
E liam.c.royle@uk.gt.com

Macaulay Gulliford
Assistant Manager
E macaulay.gulliford@uk.gt.com

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 Pension Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management and will be presented to the Audit Committee on 28 September 2023.

Julie Masci

Name: Julie Masci
For Grant Thornton UK LLP
Date: 13 September 2023

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Somerset Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2023 for the attention of those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Pension Fund's financial statements give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2023 and of the amount and disposition at that date of the fund's assets and liabilities, other than liabilities to pay promised retirement benefits after the end of the fund 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.

Our audit work was completed remotely during July-September. Our findings are summarised on pages 5 to 18. We have not identified any adjustments to the financial statements that have resulted in an adjustment to the Pension Fund's reported financial position. Audit adjustments are detailed in Appendix D. We have also raised recommendations for management as a result of our audit work. These are set out in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix C.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the following outstanding matters;

- completion of our outstanding testing of journal entries, contributions, and benefits;
- completion of work by our IT auditors over the Council and Fund's IT general controls (including those relating to Altair);
- completion of final quality review by the engagement manager and key audit partner and any points arising from this;
- review of the Annual Report;
- receipt of management representation letter (see separate committee item); and
- review of the final set of financial statements.

Our anticipated opinion on the financial statements will be unmodified.

While our work on the Pension Fund financial statements is complete, we will be unable to issue our final audit opinion on the Pension Fund financial statements until the audit of the Administering Authority is complete.

We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. Due to statutory deadlines the Pension Fund Annual Report is not required to be published until 1 December 2023. We have therefore not given this separate opinion at this time and are unable to certify completion of the audit of the administering authority until this work has been completed.

1. Headlines

National context – audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November. There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see [About time? (grantthornton.co.uk)]

We would like to thank everyone at the Pension Fund for their support in working with us constructively not to fall behind, enabling us to complete our substantive work in the expected timeframe.

Local context - triennial valuation

Triennial valuations for local government pension funds have been published. These valuations, which are as at 31 March 2022, provide updated information regarding the funding position of the Pension Fund and set employer contribution rates for the period 2023/24 – 2025/26. For the Pension Fund, the valuation was undertaken by Barnett Waddingham and showed that the funding level had increased to 95%. The results of the latest triennial valuation are reflected in the Net Asset Statement and note 14.

We have performed testing of the completeness and accuracy of triennial valuation source data. This was to support our work providing assurances to auditors of employer bodies. As part of this work, we tested a sample of member data and found the source data to be complete and accurate. This additional testing is only required after each triennial review, rather than annually. See Appendix E for the impact of this work on our 2022/23 audit fee.

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 have been discussed with management and will be presented to the Audit Committee on 28 September 2023.

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.

For Somerset Pension Fund, the Audit Committee fulfil the role of those charged with governance. In addition, the Pensions Committee also considers the draft financial statements and is part of the overall member oversight process.

Audit approach

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

- An evaluation of the Pension Fund'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

We have not had to alter our audit plan as communicated to you on 29 June 2023, except to amend the detail of the fees for audit and non-audit services as detailed on page 24.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion (see separate committee item).This draft opinion will be finalised following the completion of the outstanding items as detailed on page 3, and the completion of the County Council audit.

Acknowledgements

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

2. Financial Statements

Page 254

Our approach to materiality

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

Materiality levels remain the same as reported in our audit plan on 29 June 2023.

We set out in this table our determination of materiality for the Pension Fund.

	Pension Fund Amount (£000s)	Qualitative factors considered
Materiality for the financial statements	41,200	Financial statement materiality was determined based on a proportion of the net assets of the Fund at the end of the financial year.
Performance materiality	28,800	Set at 70% of materiality.
Trivial matters	2,200	Set at 5% of materiality.
Materiality for fund account	12,200	Capped at 10% of the headline materiality.

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	We have: • evaluated the design and implementation of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness • evaluated the rationale for any changes in accounting policies, estimates, or significant unusual transactions. There were no significant changes to accounting policies in the year. We are still finalising our testing of responses to our journals selection and so we cannot conclude on this significant risk.
The revenue cycle includes fraudulent transactions (rebutted)	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we determined in our Audit Plan that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Somerset Pension Fund mean that all forms of fraud are seen as unacceptable. We have not changed our risk assessment in this regard.
The expenditure cycle includes fraudulent transactions (rebutted)	Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states: "As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition". Public sector auditors therefore need to consider whether they have any significant concerns about fraudulent financial reporting of expenditure which would need to be treated as a significant risk for the audit. In our Audit Plan, we rebutted this presumed risk for Somerset Pension Fund because: • expenditure is well controlled and the Fund has a strong control environment; and • the Fund has clear and transparent reporting of its financial plans and financial position to those charged with governance. We have not changed our risk assessment in this regard.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of Level 3 investments The Fund revalues its investments on an annual basis at the year end to ensure that the carrying value is not materially different from the fair value at the financial statements date. By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. Management utilise the services of investment managers and custodians as valuation experts to estimate the fair value as at 31 March 2023. We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated management's processes for valuing Level 3 investments; • reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met; • independently requested year-end confirmations from investment managers and custodians; • for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2023 with reference to known movements in the intervening period; and • in the absence of available audited accounts, evaluated the competence, capabilities and objectivity of the valuation expert; and • where necessary, reviewed investment manager service auditor report on design effectiveness of internal controls. We have completed our testing of level 3 investments with no issues arising.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of the pension fund net liability The Fund has chosen Option A in disclosing the actuarial present value of promised retirement benefits. As such, the Fund’s liability, as reflected in its Net Asset Statement, represents a significant estimate in the financial statements. The pension fund is a Local Government Pension Scheme, administered by Somerset County Council until 31 March 2023 then by Somerset Council from 1 April 2023. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£3,058 million in the Net Asset Statement) and the sensitivity of the estimate to changes in key assumptions. We have therefore identified valuation of the Fund’s liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • updated our understanding of the processes and controls put in place by management to ensure that the Fund’s 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 valuation; • assessed the accuracy and completeness of the information provided by the Fund to the actuary to estimate the liability; • tested the consistency of the disclosures in the notes to the core financial statements with the actuarial report from the actuary; and • 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. Our work on this balance is complete and there are no issues to be reported to the Audit Committee.

2. Financial Statements: key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 3 Investments – £101.010m	The Pension Fund has level 3 investments that in total are valued on the Net Assets Statement as at 31 March 2023 at £101.010m. All of this balance is made up of private equity funds. The level 3 investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. The basis of valuation for each category of level 3 investments is set out in note 31 to the financial statements. The overall value of level 3 investments has increased by £15.224m in 2022/23 (PY: £85.786m).	We have reviewed the level 3 investments disclosed in the statement of accounts and have reviewed the assumptions used by fund managers against third party information and data. We have concluded that level 3 investments included in the statement of accounts have been appropriately calculated and are consistent with other sources of evidence. Our findings in relation to the testing of level 3 investments identified small estimation differences. The total aggregate difference identified for level 3 investments was a potential understatement of the estimates by £1.017m, a trivial difference not requiring further reporting. There were no differences identified which were individually greater than our trivial threshold. The valuations have been provided by the fund managers and we have assessed these as management's experts, including review of control reports. We have assessed the competency of the experts and concluded that they have the appropriate expertise to provide valuations.	Light Purple

Page 258

Assessment

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

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 2 Investments – £2,601.057m	The Pension Fund has level 2 investments that in total are valued on the Net Assets Statement as at 31 March 2023 at £2,601.057m. The total of this balance is made up of derivative contracts, pooled investment vehicles, and pooled property investments. The level 2 investments are largely market traded and have been agreed to market data. The basis for each category of level 2 investments is set out in Note 26 to the financial statements. The overall value of level 2 investments has decreased by £19.075m in 2022/23 (PY: £2,620.132m).	We have reviewed the level 2 investments disclosed in the statement of accounts and have gained independent confirmation of unit prices through third party information such as via the stock exchange. Some valuations have been provided by Fund Managers and we have assessed these as management's experts, including review of control reports. We have assessed the competency of the experts and concluded that they have the appropriate expertise to provide valuations. Our findings in relation to the testing of level 2 investments identified some estimation differences. The total aggregate difference identified for level 2 investments was a £968k understatement, a trivial difference not requiring further reporting. We have concluded that level 2 investments included in the statement of accounts have been appropriately calculated and are consistent with other sources of evidence.	Light Purple

Page 259

Assessment

- [Dark 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

Page 260

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Actuarial present value of promised retirement benefits - £3,057.553m	The Fund has chosen Option A in disclosing the actuarial present value of promised retirement benefits. As such, the Fund's liability, as reflected in its Net Asset Statement, represents a significant estimate in the financial statements. The estimate is calculated by the Fund's actuary, and is prepared in accordance with IAS 26. In calculating the amounts disclosed the actuary adopts methods and assumptions that are consistent with IAS 19. A full valuation is undertaken on a triennial basis. The most recent triennial valuation is based on data as at the 31 March 2022. In between valuations, the actuary rolls forwards the value of the liabilities calculated as at the last valuation, updated on the basis of significant underlying assumptions set with reference to market conditions as at the net asset statement date. There has been a £1,815.207m net actuarial gain during 2022-23, reducing the actuarial present value of the promised retirement benefits to £3,057.553m and the net liabilities at the end of the year to £252.154m.	We have: • assessed management's expert • assessed the actuary's approach taken and deemed it reasonable • used PwC as auditor's expert to assess actuary and assumptions made by actuary (see table below) • confirmed the completeness and accuracy of the underlying information used to determine the estimate • confirmed the reasonableness of the decrease in the liability estimate • confirmed the adequacy of the disclosure of the estimate in the financial statements Our audit work has not identified any issues in respect of the valuation of the pension fund net liability.	Light Purple

Assumption	Actuary Value	PwC range	Assessment
Discount rate	4.8%	4.8% - 4.85%	● Light Purple
Pension increase rate	2.85%	2.65% - 2.95%	● Light Purple
Salary growth	3.85%	3.1% - 4.75%	● Light Purple
Life expectancy – Males currently aged 45 / 65	22.7 / 21.4	20.9 – 23.4 / 19.5 – 22.1	● Light Purple
Life expectancy – Females currently aged 45 / 65	24.7 / 23.3	24.3 – 25.9 / 22.9 – 24.5	● Light Purple

Assessment

- ● Dark 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: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas. For further detail of the IT audit scope and findings please see separate 'IT Audit Findings' report which will be provided to management on completion.

			ITGC control area rating				
IT application	Level of assessment performed	Overall ITGC rating	Security management	Technology acquisition, development and maintenance	Technology infrastructure	Related significant risks/other risks	Additional procedures carried out to address risks arising from our findings
SAP	Roll forward ITGC assessment (design effectiveness only)	TBC	TBC	TBC	TBC	Management override of controls	n/a
Altair	ITGC assessment (design and implementation effectiveness only)	TBC	TBC	TBC	TBC	Contributions and benefits payments Member data	n/a

Page 261

Assessment

- Significant deficiencies identified in IT controls relevant to the audit of financial statements
- Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- Not in scope for testing

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.

Page 262

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 material incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Pension Fund , which is included in the Audit Committee papers.
Audit evidence and explanations	All information and explanations requested from management was provided.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to bankers, custodians, and fund managers. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation, except for 3 for which we have performed alternative procedures.
Accounting practices	We have evaluated the appropriateness of the Pension Fund's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.

2. Financial Statements: other communication requirements

Page 263

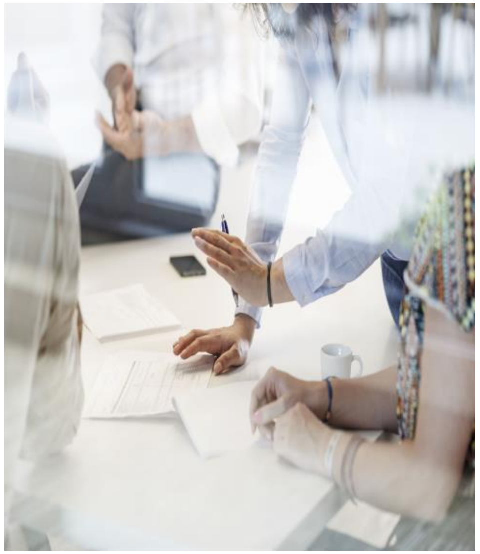
Our responsibility

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

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

2. Financial Statements: other responsibilities under the Code

Issue	Commentary
Other information	The Pension Fund is administered by Somerset County Council (the 'Council'), and the Pension Fund's accounts form part of the Council's financial statements. We are required to read any other information published alongside the Council's financial statements to check that it is consistent with the Pension Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority. We have not yet completed this work and will report on this alongside the findings in relation to the Council's audit.
Matters on which we report by exception	We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. Due to statutory deadlines the Pension Fund Annual Report is not required to be published until 1 December 2023 and we have therefore not given this separate opinion at this time. We are unable to certify completion of the audit of the administering authority until this work has been completed. We are required to report if we have applied any of our statutory powers or duties as outlined in the Code. We have nothing to report on these matters.



3. 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 and consider that an objective reasonable and informed third party would take the same view. 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 E.

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 Grant Thornton International Transparency report 2023.

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 Pension Fund. No non-audit services were identified. Note that fees for IAS 19 letters for employer body auditors were classed as non-audit fees prior to 2022/23. The National Audit Office have confirmed that the provision of IAS 19 assurances should be considered work undertaken under the Code of Audit Practice for 2022/23 onwards.

3. Independence and ethics

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Pension Fund that may reasonably be thought to bear on our integrity, independence and objectivity
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Pension Fund held by individuals
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Pension Fund as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Pension Fund
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Pension Fund's board, senior management or staff.

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 and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements

Appendices

A. Communication of audit matters to those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	●	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	●	
Confirmation of independence and objectivity	●	●
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	●	●
Significant findings from the audit		●
Significant matters and issue arising during the audit and written representations that have been sought		●
Significant difficulties encountered during the audit		●
Significant deficiencies in internal control identified during the audit		●
Significant matters arising in connection with related parties		●
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		●
Non-compliance with laws and regulations		●
Unadjusted misstatements and material disclosure omissions		●
Expected modifications to the auditor's report, or emphasis of matter		●

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

Distribution of this Audit Findings Report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

B. Action Plan – Audit of Financial Statements

We have not identified any recommendations for the Pension Fund as a result of issues identified during the course of our audit, though we identify two prior year recommendations on page 24 on which we have not yet concluded. We will provide an update to the Audit Committee when our IT Audit work has been completed and our previous recommendations followed up.

Page 269

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

C. Follow up of prior year recommendations

We identified the following issues in the audit of Somerset Pension Fund's 2021/22 financial statements, which resulted in 2 recommendations being reported in our 2021/22 Audit Findings Report. We have followed up on the implementation of our recommendations and note 2 are still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
TBC	There is no formal approval process for posting journals. Finance team members who have access to post journals can therefore effectively self-approve. This represents a weakness in the control environment as controls can potentially be overridden. The Council and Pension Fund should implement authorisation controls over journals postings, requiring journals to be authorised by a separate approver before being posted to the general ledger.	The IT audit is still ongoing at the time of drafting our findings report for the Pension Fund, and so we have not been able to conclude on whether these actions are completed. These will be more fully reviewed during the audit of Somerset County Council.
TBC	A number of deficiencies in relation to IT general controls have been identified. These represent weaknesses in the control environment which should be rectified. The Council and Pension Fund should seek to remedy the controls weaknesses identified by our IT audit team.	The IT audit is still ongoing at the time of drafting our findings report for the Pension Fund, and so we have not been able to conclude on whether these actions are completed. These will be more fully reviewed during the audit of Somerset County Council.

Page 270

Assessment

✓ Action completed

X Not yet addressed

D. 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

There were no adjusted misstatements impacting the Fund Account or Net Assets statement.

Impact of unadjusted misstatements

There were no adjusted misstatements impacting the Fund Account or Net Assets statement.

Impact of prior year unadjusted misstatements

There were two unadjusted misstatements identified in the 2021/22 Audit Findings Report, for a net impact of £15,400k understatement of investment assets. There is considered to be no impact on the 2022/23 Fund Account or Net Assets Statement resulting from this, as the estimated asset valuations are updated at each accounting date.

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/issue/Omission	Adjusted?
The audit fees note disclosed in note 9 have been updated to reflect the fee for IAS 19 assurances being reclassified as an audit rather than non-audit service.	✓
A number of minor disclosure updates have been recommended to add clarity to the accounts. Management have agreed to make all such updates where requested.	✓

E. Fees and non-audit services

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non-audit services.

Audit fees	Estimated fee
Scale fee per PSAA for 2022-23	20,871
ISA 540	3,500
ISA 315	3,000
Additional journals testing	2,000
Enhanced audit procedures for investments	2,500
Enhanced audit procedures for review of triennial valuation data	5,000
IAS 19 assurance letters for Admitted Bodies*	12,600
Estimated fee	**49,471**

*Note that fees for IAS 19 letters for employer body auditors were classed as non-audit fees prior to 2022/23. The National Audit Office have confirmed that the provision of IAS 19 assurances to auditors of local government and NHS bodies should be considered work undertaken under the Code of Audit Practice for 2022/23 onwards. Provision of IAS 19 assurances to auditors of any other type of entity remains non-Code work.

The fees reconcile to the financial statements per the footnote to note 9. There are no variations between the proposed and final fee.

F. Auditing developments

Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'
This impacts audits of financial statement for periods commencing on or after 15 December 2021.
ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'
ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: • the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures • the identification and extent of work effort needed for indirect and direct controls in the system of internal control • the controls for which design and implementation needs to be assess and how that impacts sampling • the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: • increased emphasis on the exercise of professional judgement and professional scepticism • an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence • increased guidance on management and auditor bias • additional focus on the authenticity of information used as audit evidence • a focus on response to inquiries that appear implausible
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. • Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: • clarification of the requirements relating to understanding fraud risk factors • additional communications with management or those charged with governance
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

Grant Thornton

grantthornton.co.uk

Somerset Council
County Hall, Taunton
Somerset, TA1 4DY

Somerset Council

Grant Thornton UK LLP
2 Glass Wharf
Bristol
BS2 0EL

My reference: PF audit rep 2022-23
Your reference:
e-mail: anton.sweet@somerset.gov.uk
Tel: +44(0)1823 359584

28th September 2023

Dear Sirs

Somerset Pension Fund
Financial Statements for the year ended 31 March 2023

This representation letter is provided in connection with the audit of the financial statements of Somerset Pension Fund for the year ended 31 March 2023 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 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 Fund'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 2022/23 ("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 Fund and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Fund 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. Such accounting estimates include the valuations of level 2 and level 3 investments and the IAS 26 Actuarial Present Value of promised retirement benefits. 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. Except as disclosed in the financial statements:
   a. there are no unrecorded liabilities, actual or contingent
   b. none of the assets of the Fund has been assigned, pledged or mortgaged
   c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

vii. 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.

viii. 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.

ix. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

x. We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Fund and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.

xi. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiii. We have updated our going concern assessment. We continue to believe that the Fund'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 Fund means that, notwithstanding any intention to liquidate the Fund 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 Fund's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements.

Information Provided

xiv. We have provided you with:
   a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
   b. additional information that you have requested from us for the purpose of your audit; and
   c. access to persons within the Fund via remote arrangements from whom you determined it necessary to obtain audit evidence.

xv. We have communicated to you all deficiencies in internal control of which management is aware.

xvi. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xvii. 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.

xviii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Fund, 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.

xix. 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.

xx. 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.

xxi. There have been no communications with The Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.

xxii. We are not aware of any reports having been made to The Pensions Regulator by any of our advisors.

xxiii. We have disclosed to you the identity of the Fund'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.

Approval

The approval of this letter of representation was minuted by the Fund’s Audit Committee at its meeting on 28 September 2023.

Yours faithfully

Name……………………………

Position………………………….

Date…………………………….

Name……………………………

Position………………………….

Date…………………………….

Signed on behalf of the Fund

This page is intentionally left blank

Mendip District Council Statement of Accounts 2021-22 and External Audit reports

Lead Officer: Jason Vaughan
Author: Duncan Moss
Contact Details: Duncan.moss@somerset.gov.uk

Summary / Background

1. The Accounts and Audit Regulations 2015 require the Director of Finance to publish the unaudited Statement of Accounts 2021-22 no later than 1 August 2022 and certify that they give a true and fair view of the County Council's financial position and income and expenditure for the year. This draft Statement of Accounts was published on 31 July 2022 by the Council and went to Mendip's August 2022 Audit Committee. The Regulations required the Audited Statement of Accounts to be considered by a committee of the Council by 30 November 2022 and, following that consideration, to be approved by resolution of that committee. However due to the impacts of Covid 19 ,the increased assurance work auditors are required to carry out in of respect pensions and asset valuations and resourcing, and the impact of the backlog of accounts across local authorities/public sector it was not possible to deliver the accounts until now. This report presents the audited accounts to the Audit & Governance Committee for consideration and approval, accompanied by the findings of the external auditors Ernst & Young LLP's audit results and annual report. Also, presented for consideration by the committee is the audit plan for 2022-23.

2. A representative from the external auditors, Ernst & Young LLP, will attend to present the following 3 items as mentioned above:

   21/22 Audit Results Report
   21/22 Auditor's Annual Report
   22/23 Audit Plan

Recommendations

3. The Audit Committee

(a) **Consider and approve the Statement of Accounts for 2021/22 -** Appendix 1;

(b) **Agree the changes to the Annual Governance Statement for 2021 -22, previously approved by the Committee on 3 August 2022; Annex 2 and approve the final version** - Appendix 2;

(c) **Consider and review the reports from the external Auditors Ernst & Young -** Appendices 3,4, & 5**.**

Reasons for recommendations

4. As advised in the summary this is a statutory requirement to publish the audited Statement of Accounts.

Other options considered.

5. N/A

Links to Council Plan and Medium-Term Financial Plan

6. Achievement of the Corporate Priorities as set out in the Council's plan is intrinsically linked to the spending of the Council's budget. Provided the outturn is within budget tolerance as is the case in 2021 22 this will be line with the Medium-Term Financial Plan.

Financial and Risk Implications

7. There are no direct Financial and Risk implications.

Legal Implications

8. There are no direct legal implications.

HR Implications

9. There are no direct HR implications from the Statement of Accounts/reports.

Other Implications:

Equalities Implications

10. There are no direct equality implications from the Statement of Accounts/ reports.

Community Safety Implications

11. There are no Community Safety implications from the Statement of Accounts/reports.

Climate Change and Sustainability Implications

12. There are no Climate Change and sustainability implications from the Statement of Accounts/reports .

Health and Safety Implications

13. There are no direct HR implications from the Statement of Accounts/reports.

Health and Wellbeing Implications

14. There are no Health and Well being implications from the Statement of Accounts/reports.

Social Value

15 There are no direct social value implications from the Statement of Accounts/reports.

Scrutiny comments / recommendations:

16. N/A Statement of Accounts work is an Audit Committee function.

Background Papers

17. All documents referenced are listed in the Appendices below.

Appendices

- 1.Legacy Mendip District Council's Statement of Accounts 2021- 22
- 2.Legacy Mendip District Council's Annual Governance Statement 2021-22
- 3.Ernst & Young 21/22 Audit Results Report
- 4.Ernst & Young 21/22 Auditor's Annual Report
- 5.Ernst & Young 22/23 Audit Plan

Page 285

STATEMENT OF ACCOUNTS

2021/22

Version Control

Version 1	31 July 2022	Draft Statement of Accounts
Version 2	28 September 2023	Final Statement of Accounts

Jason Vaughan FCCA, CPFA. IRRV (Hons)
Executive Director - Resources & Corporate Services & S151
Cannards Grave Road, Shepton Mallet, Somerset, BA4 5BT

This page is intentionally left blank.

Introduction to Mendip

Although a challenging year the council can also reflect on 2021/22 being a successful one. The impact of COVID-19 on the council budgets during the year was assessed as an ongoing risk. However, the actual sums received from government have substantially covered both the additional costs incurred and the income lost as a result of the pandemic during 2021/22. Unlike the previous year, COVID-19 has therefore had a more limited financial impact on the council.

Mendip District Council (MDC) is one of four District Councils in Somerset and covers an area of approximately 74,000 hectares with a population of 116,100 (ONS census 2021) living within 53,429 households liable for council tax, largely concentrated in the principal towns of Frome, Glastonbury, Shepton Mallet, Street and Wells. MDC is a rural district with a population density of 1.5 per hectare, less than both the regional and national averages. It encompasses 34 wards and 62 parishes.

Mendip is a picturesque area of Somerset with individually distinctive towns and villages, areas of outstanding natural beauty, sites of historical significance, and many tourist attractions and events throughout the year. During 2021/22 work commenced in respect of creating the new Unitary Council, combining County and the 4 districts.

This work continues in multiple workstreams to which Mendip contributes its resources and which will be even more significant a commitment in 2022/23 in order to provide a safe and legal New Council by vesting day on 1 April 2023. This will require officers and members to balance both their normal Business as usual and Unitary work.

Glastonbury is one of the Government's 101 Town Deal towns. In October 2020, we received £500,000 of Accelerator Funding for five projects that are having a positive impact on the town. The Glastonbury Town Investment Plan was submitted in January 2021 seeking £24.5m funding to deliver an exciting programme of projects by March 2026 that will establish Glastonbury as a leader in terms of environmental sustainability combined with ambitious economic growth. In the current year, Heads of Terms were received from the then Ministry of Housing Communities and Local Government offering £23.6m (the highest offer in the South West region and across England per capita) and good progress is being made to develop full business cases for each project detailed in the Town Investment Plan. The council has undertaken significant works to survey and decontaminate the derelict site at Saxonvale in Frome ahead of the proposed regeneration of the site.

These works have been funded through a Local Authority Accelerated Construction grant from Homes England. There are some potential structural works remaining, subject to the future plans for the site, and the Homes England Grant has been extended until 31 March 2023 to enable these works to be carried out if necessary

In respect of sustainable transport during the year 2021/22, a temporary Sustainable Travel and Transport Officer has been employed to support the Team leader in the delivery of the sustainable transport corporate priorities. The project had additional support of a £300k Cabinet funding allocation to achieve land access and the relevant permissions to build the paths, and a third tranche of active travel England where early indications suggest a £150k allocation for Mendip.

Within the Glastonbury Town Deal there is also a project to encourage cycling and from within the Accelerator Funding for the Glastonbury Town Deal, the Glastonbury Way, an 8-mile walk around the Town was completed in March 2021'.

Contents

**Please click on the descriptions to follow the hyperlink*

Index to Notes to the Financial Statements

Chief Finance Officer's Narrative Report

This narrative tells the story of the council in 2021/22, seeking to highlight key issues in year for the reader who can then seek more detailed explanations in the financial statements and disclosure notes. Under the extended statutory deadlines for 2021/22 the council's draft accounts have to be published by 31 July 2022 and audited by 30 November 2022.

The 2021/22 financial year was marked by the work of the council in continuing to support residents and businesses in dealing with the ongoing effects of COVID-19. In common with all local authorities, Mendip continued to face additional costs in responding to the pandemic and shortfalls in its usual sources of income. However additional financial support from central government, mainly during the first quarter of the year, assisted the council in ensuring in-year budget pressures were contained within available resources. There seems to be a continuing trend for councils to be asked to do more as, at the time of writing, the council is administering thousands of payments to residents through the Government's Energy Rebate scheme. In addition we are also putting into place the necessary arrangements to enable the Government's Home for Ukraine scheme.

The future finances of the council still have considerable uncertainty regarding the funding in the years ahead, along with longer-term financial implications of the sharp increases in inflation. These issues will be concerns for the new Unitary Somerset Council to resolve.

The costs incurred and income lost due to the pandemic have been substantially covered by additional grant income this year, received from government. This has included the additional costs incurred in administering the COVID-19 business grants.

The outturn position on the revenue budget is an underspend of £730k. This is mainly due to better performance than anticipated on both business rates income and commercial income. A prudent stance was taken when setting the 2021/22 budget in February 2021, as the effects of the pandemic were difficult to project. This under spend will assist by increasing the low general reserves from £1.7m to a more healthy £2.4m.

Many of the service budgets appear overspent, however they are largely covered by planned movements from reserves. These cover additional costs relating to corporate priorities, local government reorganisation and projects/service issues.

As a result of the under spend the council is pleased to report an improved financial position, which demonstrates once again the excellent standard of financial management, despite the extra work from having to put systems in place to manage a range of COVID-19 related initiatives. Continued strong stewardship of the council's resources will help to safeguard against the continuing effects of the COVID-19 pandemic and the extra surplus will assist with the new Council's finances as it seeks in 2022/23 to resolve any budget gaps from the combined MTFP's and the uncertainty over future funding, the impact of the war in Ukraine and emerging inflationary pressures.

Mendip's responses to mitigate the impacts of the pandemic

Tree planting at Binegar Bottom

A selection of In year achievements are:

Climate highlights from 2021/22

- Update on the districts carbon emissions showing the possible reduction the Mendip can achieve against it's 2017 baseline is now 37.5% compared to the 30.5% originally estimated
- MDC joined UK100 a network of local authorities devising and implementing plans for the transition to net zero
- Around 4000 trees planted through the Queens Green Canopy fund between January – March 2022
- Baselining of agricultural emissions with The Farm Carbon Toolkit took place at a district level with case studies and webinars taking place after April 2022
- From a planning perspective supplementary planning document DP7 design and amenity of new developments and Net Zero Carbon Toolkit adopted by Cabinet
- From a housing perspective - various home improvement grants

Sustainable transport

In 2021/22 other work included: the further development of the Local Cycling Walking Infrastructure Plan (LCWIP) (which will be completed mid 22/23); the construction and opening of the Dulcote path (with planning applications bought forward for the Windsor Hill tunnels); and planning approval for construction of the campus MUP.

Community Health

Mendip (as part of the Heart of the South West, Better Business for All) have won a National Regulatory Excellence Award from the Office for Product Safety and Standards for work on the EU Transition – including producing the guide for exporting animals and animal products to the European Union.

The impact of COVID-19 on the finances of the council were a major concern during 2020/21 but the impact has proved less throughout 2021/22.

Additional support was provided in a number of areas:-

- General grant for 2021/22 £563k
- New Burdens funding, covering administration of COVID-19 business grants £176k
- Compliance and Enforcement grant received of £145k
- Additional homelessness funding £115k
- Sales, Fees and Charges reimbursement £211k

The net impact on the council falls in a number of areas, set out below.

Sales, Fees and Charges

1. The re-imbursement scheme for lost sales income, which recovered £2m for Mendip within 2020/21, only ran for the first quarter of 2021/22.

2. This did, however, cover the main period of lockdown which impacted council services such as car parking, garden waste and markets. The re-imbursement did not cover the first 5% of the budget and the remainder was only re-imbursed at the rate of 75% of the remainder.

3. The overall losses were estimated at around £350k for this period, with £211k recovered from the government.

4. Planning fees, land charges and licencing income all held up well, despite the pandemic.

Additional expenditure as a result of the pandemic, the main areas in descending order have been:

• COVID-19 Related Work £280k	
• Bank Charges,ICT £135k	
• Waste Partnership £60k	
• Citizens Advice £50k	
• PPE £34K	
***Total approximately**	**£0.56m**

*The level of expenditure on COVID-19 is difficult to determine precisely as a significant part of the costs are within existing staffing.
The extra tranche of General COVID-19 grant received from government of £563,171 has been used to meet these costs.

A number of grant schemes were active during the year, with the council acting as either agent for schemes defined by government (the majority of grants); or principal for its own discretionary grants. Additional restriction grants which were discretionary - the council devised a matrix in order to determine which business should be supported with the monies available. The Accounting rules for grants is set out in Section 2.3 of the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). In addition, Section 2.6 of the Code describes how the accounting treatment for transactions within an authority's financial statements shall have regard to the general principle of whether the authority is acting as the principal or agent and particularly whether it controls good or services before they transfer to the service recipient. The schemes had varying conditions and associated complex required assurances.

In 2020/21, £54m was received and £48m was paid out to businesses, with the remaining £6m carried forward to 2021/22. In addition, the council has received an additional £12m of business grants in 2021/22. A total of £14.2m was paid out during 2021/22, taking the overall total of business grants paid to £60m. The remaining sums (around £6m) has been returned to government. This was due to a number of grant allocations being in excess of the businesses who were eligible for payments.

The grant funding has been used to provide business grants in line with government policy, support working age Council Taxpayers in receipt of Council Tax Support, and for the general additional costs incurred by the council related to COVID-19.

Business Rates

Administration provided by Capita on behalf of Mendip ran smoothly with the actual collection rate up from 91.73% in 2020/21 to 95.88% in 2021/22. Government COVID-19 related grant funding continued to be paid with around 75% of Mendip businesses that pay business rates having had grants paid. In addition, Business Rates reliefs continue, especially for those in the retail, hospitality and leisure sectors in line with Government requirements. These all will have helped to lessen the financial impact on local businesses which then have a better chance of being able to continue to trade.

As last year, no extra recovery costs were added to business ratepayers, including summons to court and potentially enforcement (bailiff) action that may have resulted. Instead “soft nudge” reminder letters were issued to ensure take up of reliefs and extra help / advice was made available and encouragement to make alternative payment plans.

The 2021/22 provision of £11.4m of additional business rates reliefs, fully funded by government was a significant benefit for the Retail, Hospitality and Leisure businesses.
Finally, the potential financial impact of a reduction in Business Rates from the impact of COVID-19 did not materialise as this had held up well and generated £600k of funding in excess of the prudently set budget.

Council Tax

Administration provided by Capita on behalf of Mendip also ran well with the collection rate up from 94.47% to 96.31%.

As with the year before, a more selective, considered approach to recovery was taken. Trying to ensure where council tax payers had difficulty paying they were not unnecessarily taken to court and all efforts made to help them deal with their charge - for example by claiming council tax support or other reliefs; or making more suitable payment arrangements.

Council Tax Support and Hardship

The Council Tax Support scheme provides means tested help for both pension age and working age households. 4,364 received some extent of relief with the whole amount of relief of over £4.6 million.
In addition, the council runs a hardship scheme that provides extra help on top of this Support scheme. Last year this meant extra help for 252 households, relief totalling £71,671. This has helped the most economically vulnerable and those most in need.

In preparing financial statements the council has considered the recoverability of debt and the potential need to recognise impairments. The council has set aside earmarked provisions for increased bad debts from COVID-19 and has in previous years earmarked reserves for collection fund deficits that might arise in challenging times such as these due to the detrimental economic effects of the pandemic.

A number of commitments have been made during the year, which require funding to be carried forward to 2022/23.

Future concerns

As advised in the Annual Governance Statement the council/new Unitary continues to face a financially difficult future and the Strategic Risk Register includes a specific risk:
SR36 “Long term financial planning - Failure to deliver a balanced budget and sustainable long-term financial plan will put at risk future public service delivery to the residents of the Mendip District. While this would affect all residents, it will have the biggest impact on the vulnerable.”

The Corporate Plan 2020-2023.

Corporate Priorities
Listed below are the corporate priorities and these are to:

1 Make Mendip a fairer place
Our district has much to offer in terms of quality of life. However, we know not everyone has the same level of opportunity and austerity and growth inequality mean some people experience real challenges.
The council has a crucial role to play in ensuring all our residents can access the services and support they are entitled to, to open up opportunities, lead more secure lives and be able to play a full role in the community.

2 Deliver on our climate and ecological commitment
The council has declared a climate emergency and we are committed to the aim of becoming carbon neutral by 2030. Our Climate and Ecological Emergency Group (CEEG) has been set up to oversee and co-ordinate this work under a number of themes:
Behaviour Change, Built Environment, Energy, Food and Nature, Money and Investment, Transportation, Waste and Water.

3 Protect and enhance our towns and rural communities
This priority focuses on the city, towns and villages in Mendip and addressing the housing, services and infrastructure needs of the communities who live in them. It is also about working with local people and partners to contribute to the protection and enhancement of the built and natural environment.

The Corporate Priorities above are supported by:

4 Key Principles	**Supported by 3 Core values &**
Be transparent and open in our decision making	Leadership
Be an inclusive employer that invests in our workforce	Creativity
Be a relationship builder with local, regional and national partners	Achievement
Be smart in how we manage resources	**Related Values**
	Integrity
	Respect
	Challenge

Strategy and resource allocation

The council has produced a financial model which delivers the council's priorities whilst addressing the significant financial challenges being experienced as a result of the Government's austerity measures and the resulting cuts in funding.

The Medium Term Resource Strategy (MTFP) is based upon the long term vision included within the council's new Corporate plan for 2020/23. It is the vehicle by which the council identifies resources to deliver the Corporate Plan. The MTFP covers both revenue resources and resources for capital investment.

The MTFP aims to:

- Ensure the level of reserves remains appropriate
- Identify service delivery trends, changes in legislation etc. that will have a service and financial impact
- Accurately predict levels of spend in the future
- Identify whole life costs of capital projects and ensures all projects are adequately funded and resourced
- Cost areas of new or increased priority services
- Provide efficiency savings where possible to fund new investment or enhanced services
- Increase value for money
- Develop partnerships where they can offer a better way forward.

The government's austerity measures over recent years significantly reduce the level of government funding. When combined with ever increasing demand for our services from families and businesses, there is considerable pressure on our budgets.

The Medium-Term Financial Plan (MTFP) our Financial Model, Summary Position

The MTFP agreed in February 2022 showed a balanced position for 2022/23, with shortfalls over the remaining year of the MTFP of £1,881k as shown below (Unitary will reset the model in 2023). The principal pressure is in 2022/23, reflecting the impact of the then anticipated changes expected from Fair funding review.

	2023/24 (Unitary)	2024/25	2025/26	2026/27
	£000	**£000**	**£000**	**£000**
Annual Shortfall	£1,881	£0	£0	£0
Cumulative Shortfall	*£1,881	£0	£0	£0

*The postponement of Rates Reform and the Fair funding review, due to the impacts of COVID-19, will assist by moving the predicted losses from the reforms and the continued delays to the funding changes will mean they will no longer take place during the life of this council. The risk has therefore been reduced to a tolerable level for Mendip Council.

Mendip has a range of strategies/commitments largely covered in performance management reports to ease the financial short fall, for example:

- Deliver the asset management strategy which includes commercial property acquisitions and development opportunities

- To maximise opportunities from MDC owned assets across the district
- To identify, explore and exploit opportunities identified in the transformation work streams
- Conduct a strategic review of key contracts to ensure quality and best value and define strategic direction for future service delivery.

The **Phoenix Sponsorship Board** oversees the council's programme of transformation, the normal course will be to take matters through Cabinet except where time is critical and requires a Phoenix Sponsorship Board meeting. As stated last year, the impact of the pandemic has reduced the supply and return on commercial investments; this coupled the uncertainty in the market and with PWLB restrictions on borrowing for debt for yield have meant there were no new commercial investments in 2021/22. At the time of writing the s24 notice now in force would mean the new Council (Somerset) would need to approve any Revenue expenditure over £100k and Capital over £1m.

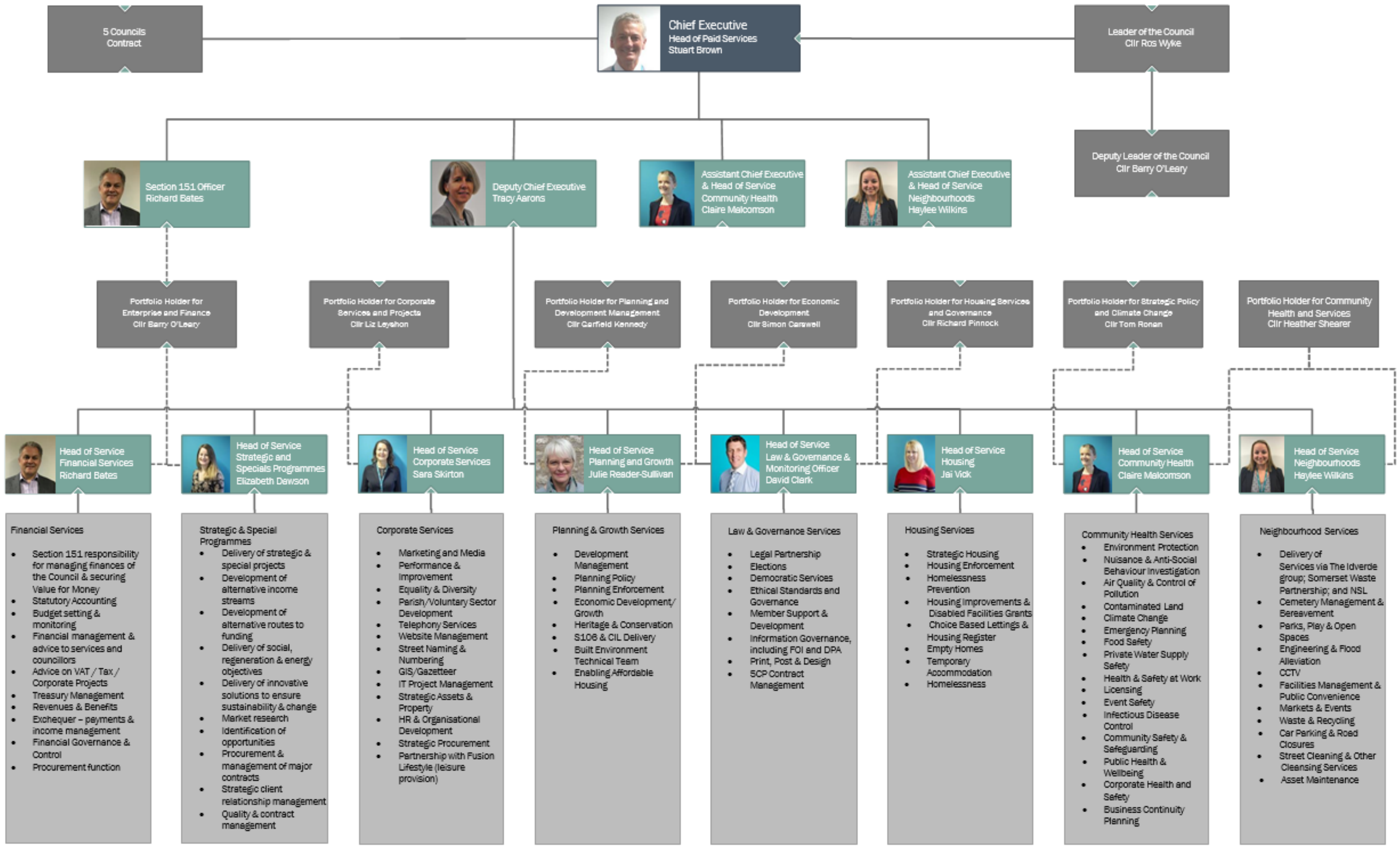
Our leadership and workforce

Our Constitution sets out the rules and procedures by which the council operates- here. The council has 47 members (or 'councillors'), elected by the public to represent a particular local area. Collectively they are responsible for the democratic structure of the council, overseeing our key policies and services and setting the council's annual budget and capital programme. More information can be found on our website here. The Leader of the council is Cllr Ros Wyke, who appoints a Cabinet, responsible for key decisions to manage the council's business. Details of Cabinet members and their responsibilities can be found on our website here. Employees ('officers') support Cabinet and council in their work and manage the council's services and operations.

The Chief Executive (Stuart Brown) leads the most senior group of officers, the Senior Leadership team (SLT), who advise councillors on policy and implement councillors' decisions.

Structure on following page.

Management Structure of the Council

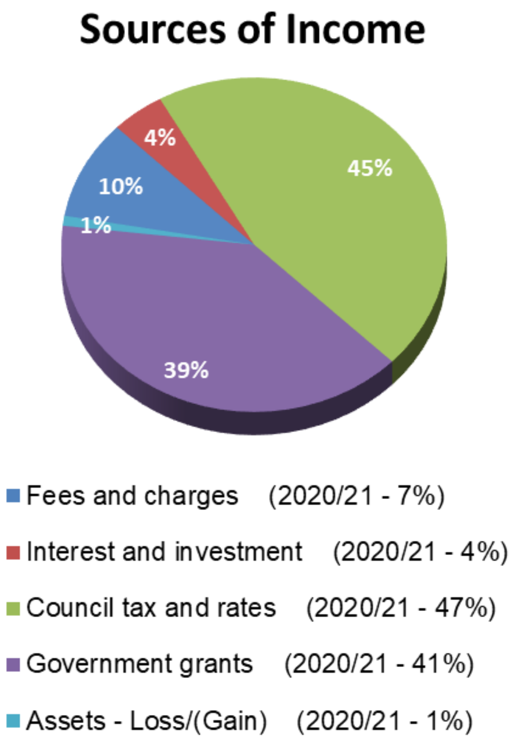


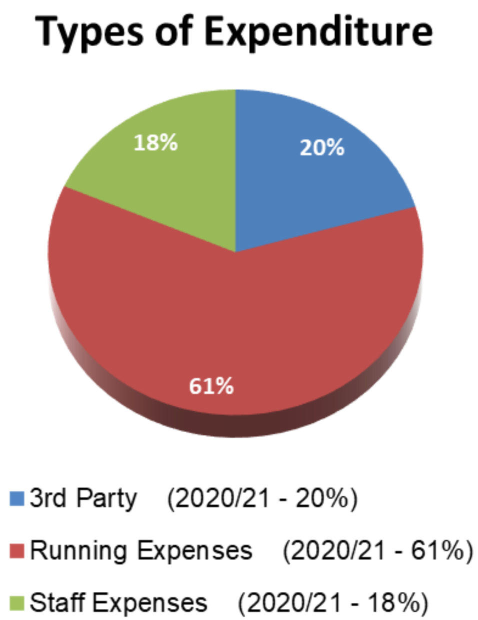
Page 300

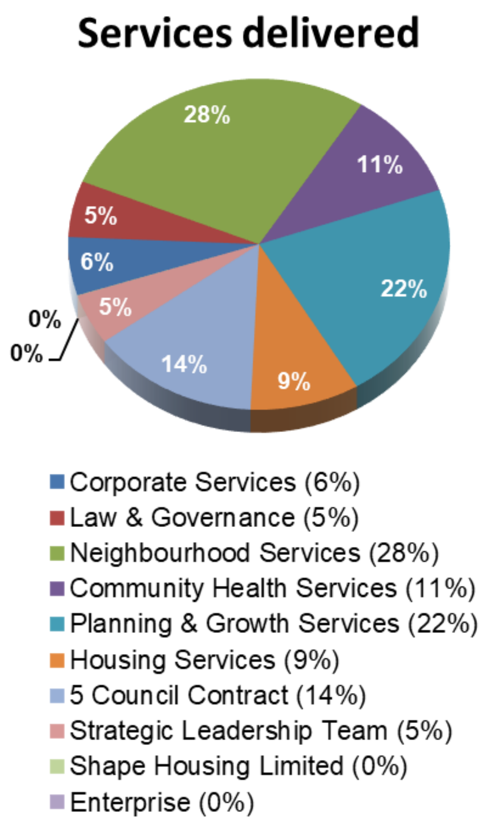
The financial standing of the council is robust, with sound and improving financial management practices.

Financial Summary

The following diagrams show where our money came from, which services we spent it on and how we spent it. It is important to note the contribution from the local community through council tax & rates represents 45% of the cost of delivering our services.







The charts above show the council's sources of funding, types of expenditure and services delivered.

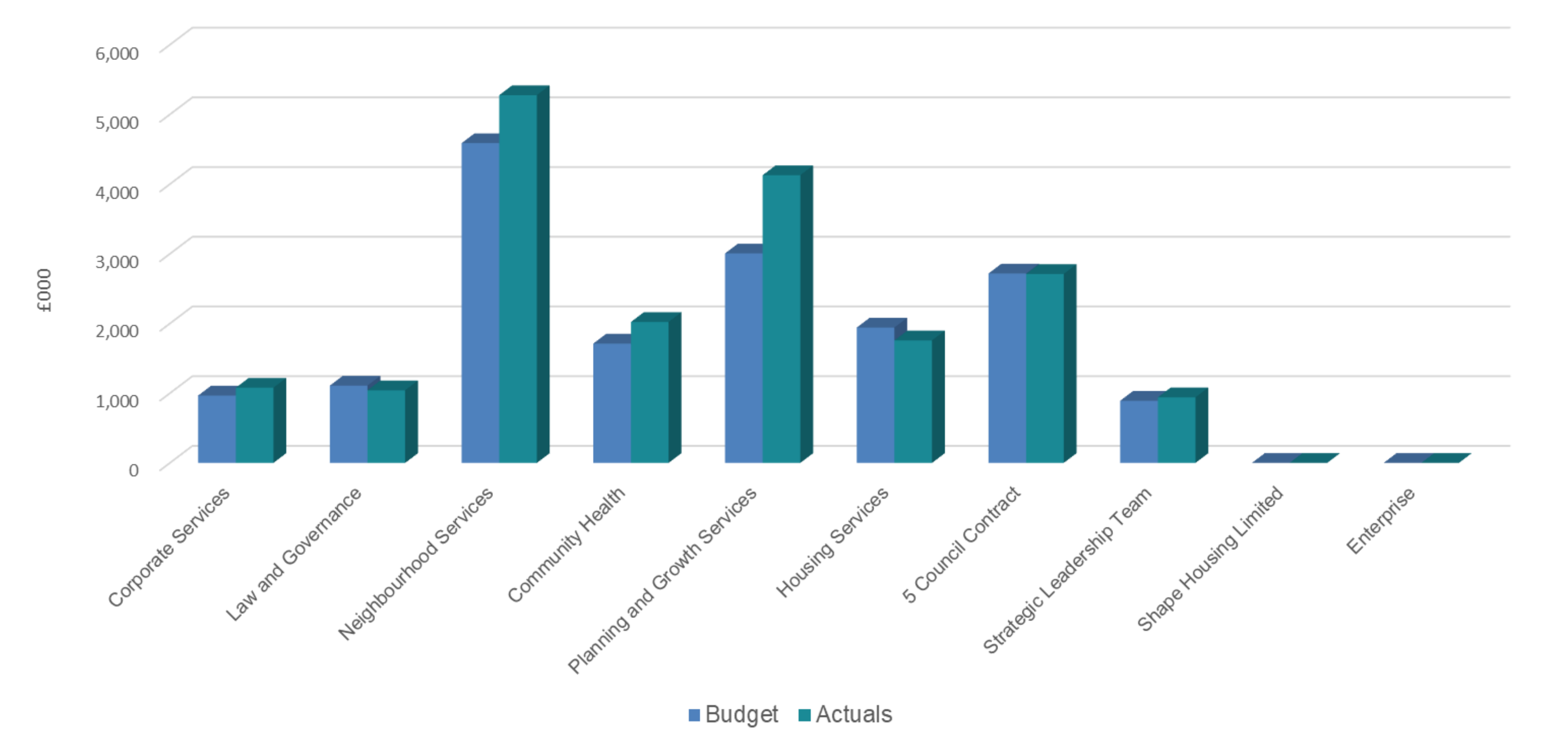
The day-to-day costs (£49.6m for 2021/22) of running the council is made up of £11m of staff costs (2020/21 £8.7m), and £38.6m on non-staff service expenditure (2020/21 £38.9m),funded from council tax, business rates, central government funding, fees and charges and interest and investment income.

The following table shows our actual revenue spending equated to an under spend of £730k. The surplus will to added to general balances, as the current level is only just above the minimum level set by the Section 151 officer. As a result, the council has adequate reserves going into 2022/23. The financial health of the council will impact on all priorities when the new Somerset Council needs to make funding decisions for future years.

These figures are subject to final checks and reconciliations, adjustments made during the production of the Statement of Accounts and external audit.

	Working Budget £000	Actual £000	(Under) / Overspend £000	(%)
Corporate Services	967	1,079	112	12%
Law and Governance	1,109	1,042	(67)	(6%)
Neighbourhood Services	4,587	5,276	689	15%
Community Health	1,713	2,022	309	18%
Planning and Growth Services	3,006	4,128	1,122	37%
Housing Services	1,942	1,758	(184)	(9%)
5 Council Contract	2,718	2,711	(7)	0%
Strategic Leadership Team	892	941	49	5%
Shape Housing Limited	0	(6)	(6)	0%
Cost of Group Services	**16,934**	**18,951**	**2,017**	12%
Non-Service Costs	**(16,934)**	**(19,681)**	**(2,747)**	16%
Gross Overspend	**0**	**(730)**	**(730)**	
Outturn Surplus after Earmarked Reserves			**(730)**	

Please note Corporate Services includes Transformation.



Significant Variances

The final outturn can be broken down into variances that are controllable by management and those that are non-controllable technical variances such as legislative change and accounting adjustments (such as depreciation costs, IAS19 Pension adjustments and support service recharges. Services spend has largely mirrored the budget, showing good budgetary control by the management, with an overall under-spend of £730k.

The major variance over £100k are:

CORPORATE SERVICES – Overspend £382k

- The major variance for Corporate Services is £50k additional one off support was agreed by Cabinet and provided to Citizens Advice to deal with the extra workload during the pandemic. There are a number of other minor variances which have been managed by the budget holder during the year. The council's leisure provider has been making regular repayments of rent plus deferred outstanding rents which were accumulated during the pandemic. This has helped to reduce the council's overall bad debt provision.

NEIGHBOURHOODS – Overspend £224k

- Additional COVID-19 works costs and costs incurred by Somerset Waste Partnership of £60k for changes to start times and shift patterns
- Reduction in garden waste income due to pause in collection during the pandemic
- Reduction of £320k in car parking income due to the pandemic. Part of this was recovered from government under the arrangements for COVID-19 sales, fees and charges losses which operated until the end of the first quarter of 21/22

PLANNING AND GROWTH – Overspend £664k

- Expenditure on re-opening the high streets, which is funded by grant
- Work on the Glastonbury Town Deal over the £140k budgeted use of reserves
- Additional staffing costs incurred due to the number of interim / temporary posts in place of permanent employees as we move to Unitary.

HOUSING - Underspend £229k

- Additional grant income was received during the year which has been fully utilised, apart from the £56k balance on rough sleepers which will be carried forward. This has reduced the call on the council's own housing budget.

CONTRACTS – Overspend £627k

- Write off of historic Housing Benefit debts
- Additional ICT costs within the 5 Council contract for the introduction of Pay 360 income system and other contract milestones
- Amendment of the split of 5 Council contract costs due to changes in services received by each of the councils. Mendip's share has increased.

A new reserve has been established which will be used to smooth the additional 5 Council Contract spend from April 2023 until the end of the contract period.

STRATEGIC – Overspend £333k

- COVID-19 costs charged here for works, equipment, grant administration, bank charges and Stronger Somerset costs
- Additional procurement resource and reduction in bad debt provision

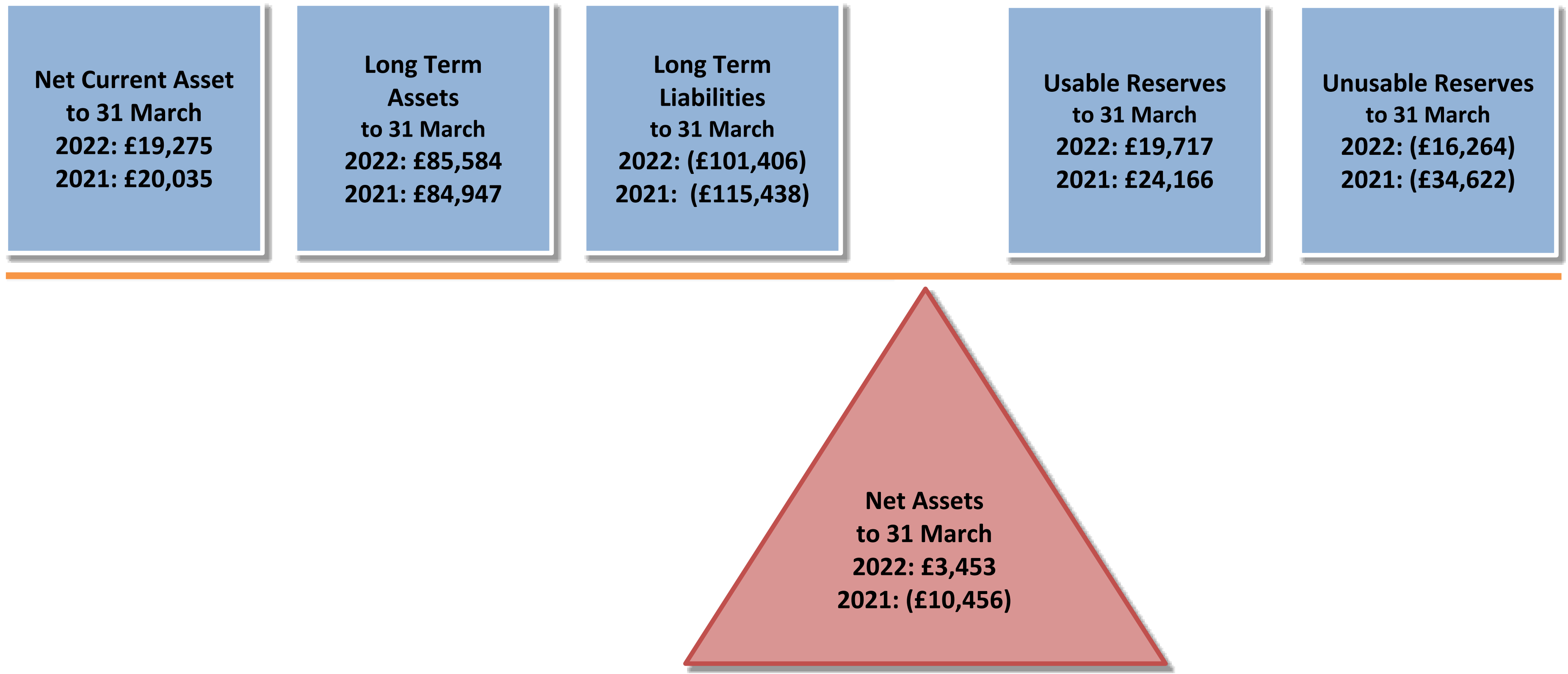
NON-SERVICE – underspend £2.7m

- Additional income from Commercial Investments £230k as income was not materially impacted by COVID-19
- Additional MRP charge £28k
- Additional COVID-19 general grant £563k and COVID-19 sales, fees and charges reimbursement.
- Contingency budget unspent £100k. This was earmarked to cover the costs of Stronger Somerset.
- Business rates £300k.
- Transfers to / from reserves (£1,024k).

In year significant service changes

There were no significant restructures however the impact of moving to Unitary has meant higher staff leaving and more temporary staff, a trend that is likely to continue and possibly increase in volume.

Balance sheet Assets and Liabilities comparison. Figures are £000.



Capital Spending - relates to the acquisition, creation or enhancement of assets that yield benefits for more than one year and is financed by grants, contributions, loans and capital receipts generated from the disposal of assets. Alongside our day-to-day costs, we spend money on assets such as Housing, Building Maintenance, Information and Communications Technology (ICT), as shown on the right. The outturn position on capital expenditure for 2021/22 is £4.2m.and major areas of expenditure are:

1. Window replacement on Asham Building £155k, Committee Audio Visual system £60k, ICT provision £133k and Waste bin replacements £160k

2. A sum of £290k has been spent to date on the Glastonbury Town Fund in 2021/22. The business cases have now been submitted and the main project spend will commence once these have been approved by government. The overall grant sum to be spent on the Glastonbury projects is £23.6m.

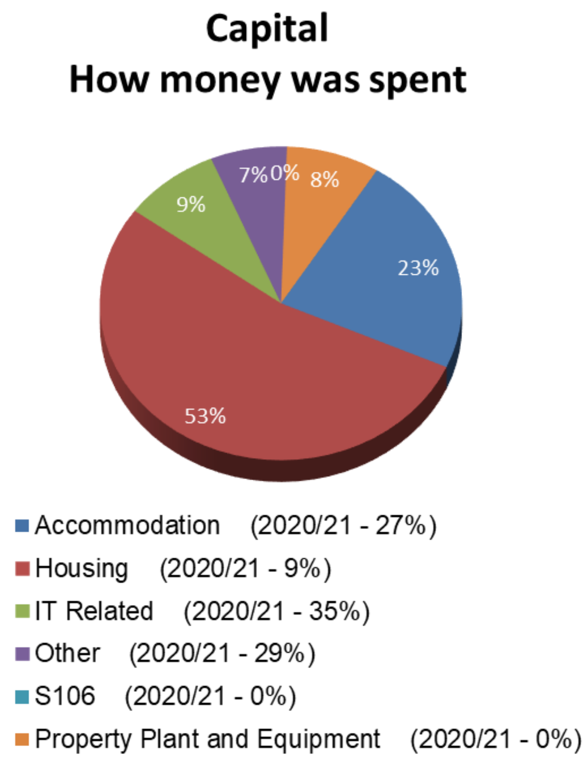
3. A total of £963k was spent in Disabled Facilities Grants in 2021/22. The unspent balance is automatically rolled forwards to next year. The new Somerset Council will have more flexibility to apply some of this grant in future to wider social care capital priorities.

4. A total of £2.16m of the Homes England funding for remediation of the Saxonvale site has been spent in 2021/22. The balance of £541k has been carried forward to 2022/23 with the agreement of Homes England.

5. There are a number of other capital schemes where expenditure has either partly or totally slipped from 2021/22 to 2022/23. Some schemes were not progressed due to local government re-organisation and will now be removed from the programme. These sums will not be carried forwards.

6. Wi-Fi upgraded, costing around £200k.

Page 306



High Level Capital Variance summary

Investment properties	£25.0m	No purchase additional as anticipated c/fwd
Regeneration projects	£24.2m	No regeneration during pandemic
Remaining	£6.1m	Largely C/fwd. to spend in 22-23 e.g. Disabled Facilities Grant, Car parks, Buildings etc

Regeneration schemes at present are limited to Saxonvale.

Capital receipts which occur principally through right-to-buy in relation to the council properties transferred continue to be received. These were £603k in 2021/22, which was above expectations.

Due to constrains on the revenue budget, no borrowing costs have been set aside to pay for any new investments, so any borrowing, either for commercial investment or regeneration would have to be self-financing and subject to revised CIPFA/PWLB rules.

The majority of continuing capital item under-spends, were requested by services to be earmarked to carry forward to fund planned spend in future years.

Financing the Capital Programme

The council funds its Capital Programme through several sources including its own usable capital reserves, capital grants it receives from central government and contributions from developers.

Overall, the council has now borrowed a total of £62.793m from PWLB.

Mendip have under financed by £94k and this will be financed by future MRP/capital contributions. However, our CFR has reduced from £59.330m to £59.073m as our MRP charge for financing old expenditure was greater than additional unfinanced expenditure from in year.

	2020/21 £000	**2021/22 £000**
Opening Capital Financing Requirement	59,381	**59,329**
Capital Investment		
Property, Plant and Equipment	701	**452**
Investment Properties	1,396	**2,271**
Intangible Assets	275	**253**
Revenue Expenditure Funded from Capital under Statute	1,333	**1,253**
Sources of Finance		
Capital Receipts	(512)	**(761)**
Government Grants and Other Contributions	(2,780)	**(3,367)**
Sums set aside from revenue		
Direct Revenue Contributions	(25)	**(25)**
Minimum/Voluntary Revenue Provision	(440)	**(333)**
Closing Capital Financing Requirement	59,329	**59,072**
Increase/(decrease) in underlying need to borrow (unsupported by Government financial assistance)	(52)	**(257)**
Increase or (decrease) in Capital Financing Requirement	(52)	**(257)**

Page 308

Exceptional items
The exceptional items to note in this year's budget are:

Somerset Council's Unitary Decision

Shape Housing Company Ltd
The Company incurred minimal expenditure exploring opportunities in 2021/22. The council has not included its wholly owned Subsidiary Company 'Shape Housing Ltd' in the 2021/22 Statement of Accounts, and so has not produced Group accounts. This decision is a result of the fact that Shape Housing Ltd is not material either qualitatively or quantitatively.

Contract review as a result of Unitary

Contract reviews are underway as a result of Mendip District Council being replaced by the formation of the new Somerset Unitary Council from 1 April 2023. As a result of the preparatory work for Mendip DC ceasing to exist and being replaced by the new Somerset Unitary Council incorporating Somerset County Council and the 4 Somerset districts below reviews of all contracts are underway to achieve viability by vesting day. This work includes establishing costs, deadlines to exit contracts and required extensions and contract changes is split into 3 types: large ,medium and small contract se.g. in the case of large the 5c partnership contract with Capita and in terms of small Pay360 income management. What contracts are looking to be continued/extended past 1st April – work with procurement about the contractual arrangement

- To retain ongoing
- To transition to single solution later and to determine the plan for this transition

Council's Earmarked Reserves

Description	General Fund £000	Earmarked Reserves £000
Balance as at 31 March 2021	**(£1,684)**	**(£20,208)**
Total Reserves Drawdown	£0	£4,948
Net Revenue Over/(Under) spend	(£731)	£1,255
Planned contribution within 2021/22 budget	£0	(£327)
New Earmarked Reserve Requests of service underspends	£0	(£500)
Proposed Balances as at 31 March 2022	**(£2,415)**	**(£14,832)**

Performance Management

At Cabinet on 6 September 2021, a Corporate Delivery Plan (CDP) was agreed to focus on specific priority actions and projects, to run until April 2023 when the new Unitary Authority will be vested. the council Plan(s) (Corporate Delivery Plan and the Corporate Plan) RAG status report as at the end of Q4 2021/22. The change was in light of the decision by Government to move to a single Unitary Authority for Somerset, it was necessary to reconsider how the council can best deliver on the actions which underpin the corporate priorities to ensure resources are in place to complete work in these areas, whilst the council carries out the transition to the new Council which will serve the residents of Mendip.

There are two lots of information as the council changed the Corporate Plan to the Corporate Delivery Plan in September 2021.
Progress against milestones is recorded and a RAG (Red, Amber and Green) indicator is used to demonstrate progress and direction of travel based on a combination of qualitative and quantitative data. The complete detail on performance reporting, including all sub commitments is available upon request.

At present under the priorities there is a total of 17 priority actions. This number may change during the lifetime of the plan as actions are achieved. The status of these actions at the end of Q4 2021/22 is as follows;

As at 31 March 2022, 13 (76%) are green, 4 (24%) are amber, 0 (0%) are red, and 0 (0%) are not yet due to start. Completed or new actions: When priority actions are completed, they will be removed from this report and replaced with any new priority actions, where appropriate.

Corporate Plan Priority Actions Dashboard

Major projects cut across and support the delivery of a number of priorities. All of these projects support delivery of the Corporate Plan. High level quarterly monitoring updates (key message) for each priority project are provided in the dashboard. Each major project has its own interdependencies, challenges, and milestones to meet the expected objectives.

Staffing Analysis as at 31 March 2022

Workforce - During the recent peer review the comment was made ‘training and development is in the DNA of the council’.

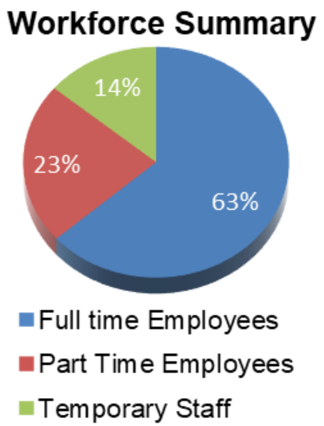
Mendip has outsourced some services for a number of years but as services such as Accountancy, HR and Procurement are insourced the number of staff has risen from the low level compared to similar sized authorities providing services in-house. At the end of March 2022, the council employed 198 staff, 146 full time and 52 part time employees with the remaining 32 engaged on an agency or interim basis (casual staff are not on the main payroll, but are paid in year to assist with Glastonbury and Elections).

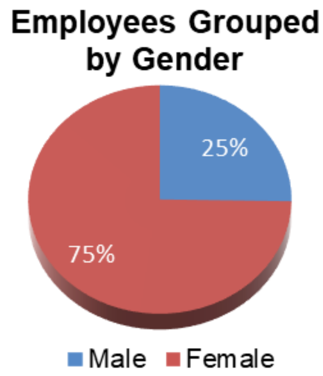
Workforce Summary	
Full-time Staff	146
Part-time Staff	52
Temporary Staff	32

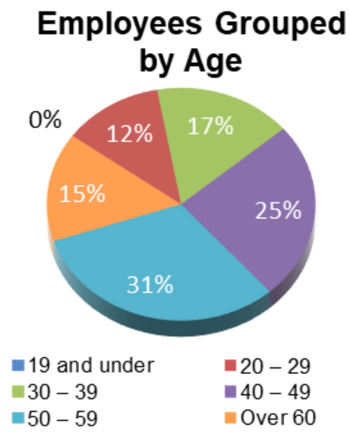
Employees Grouped by Gender	
Male	50
Female	148

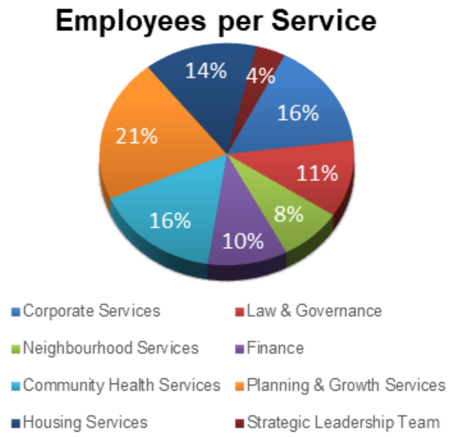
Employees Grouped by Age	
19 and Under	0
20 - 29	24
30 - 39	33
40 - 49	49
50 - 59	62
Over 60	30

Employees per Service	
Corporate Services	31
Law & Governance	22
Neighbourhood Services	17
Finance	19
Community Health Services	30
Planning & Growth Services	47
Housing Services	26
Strategic Leadership Team	6









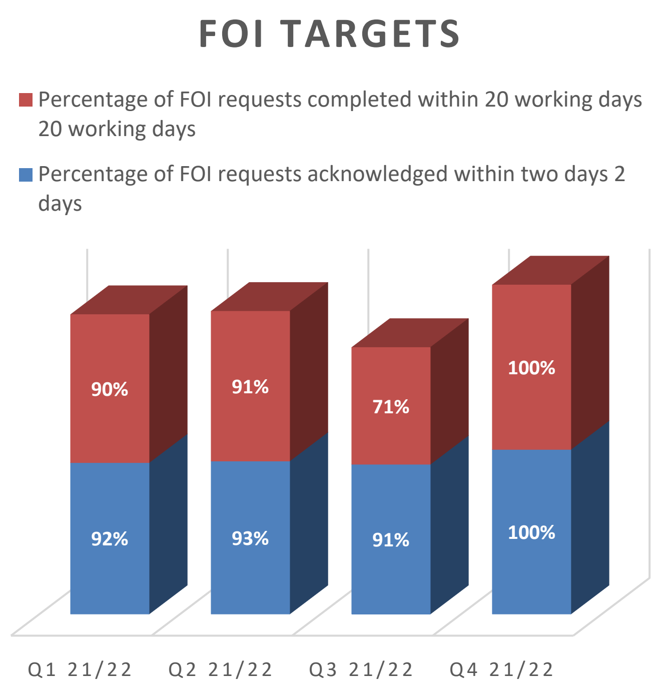
Freedom of Information and Data Protection

The council deals with a significant number of Freedom of Information (FOI) requests, with a range between 89 and 204 received each quarter over the last four financial years. The number of FOI requests received in Q4 2021/22 is significantly higher than in Q3 2021/22, and when compared with the same quarter in 2020/21 (168 requests).

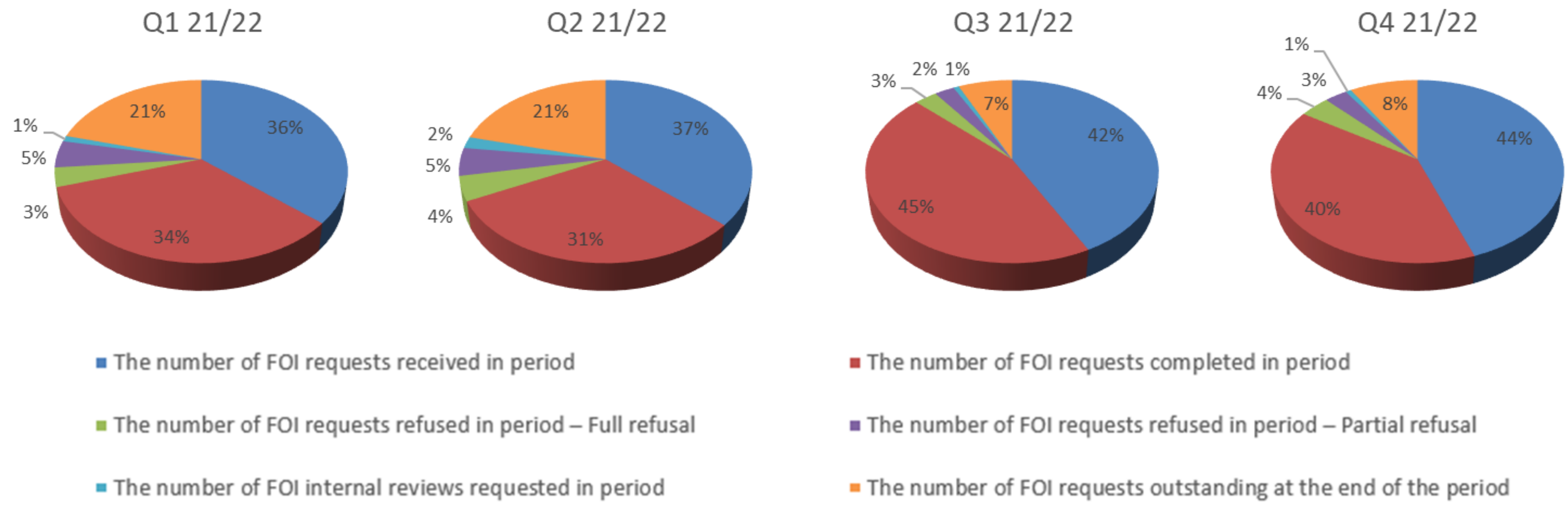
As anticipated, the process improvements in tracking and following up requests with services have seen the response rates recover substantially, to above normal levels. The response time of 71% requests responded to within 20 working days for Q3 2021/22 has significantly improved to 100% in Q4 2021/22

The total number of FOI requests received in 2021/22 (539) was slightly lower than the total in 2020/21 (548).

Calculation Methodology	Q1 21/22	Q2 21/22	Q3 21/22	Q4 21/22	Outturn
	Total	Total	Total	Total	Total
FOI requests received	107	126	119	187	539
FOI requests completed	100	107	126	167	500
FOI requests refused – Full refusal	10	15	8	16	49
FOI requests refused – Partial refusal	14	17	7	12	50
FOI internal reviews requested	3	7	2	3	15
FOI requests outstanding at the end of the period	61	72	19	36	36
Calculation Methodology	**%**	**%**	**%**	**%**	**%**
Percentage of FOI requests acknowledged within two days	92%	93%	91%	100%	95%
Percentage of FOI requests completed within twenty working days	90%	91%	71%	100%	89%



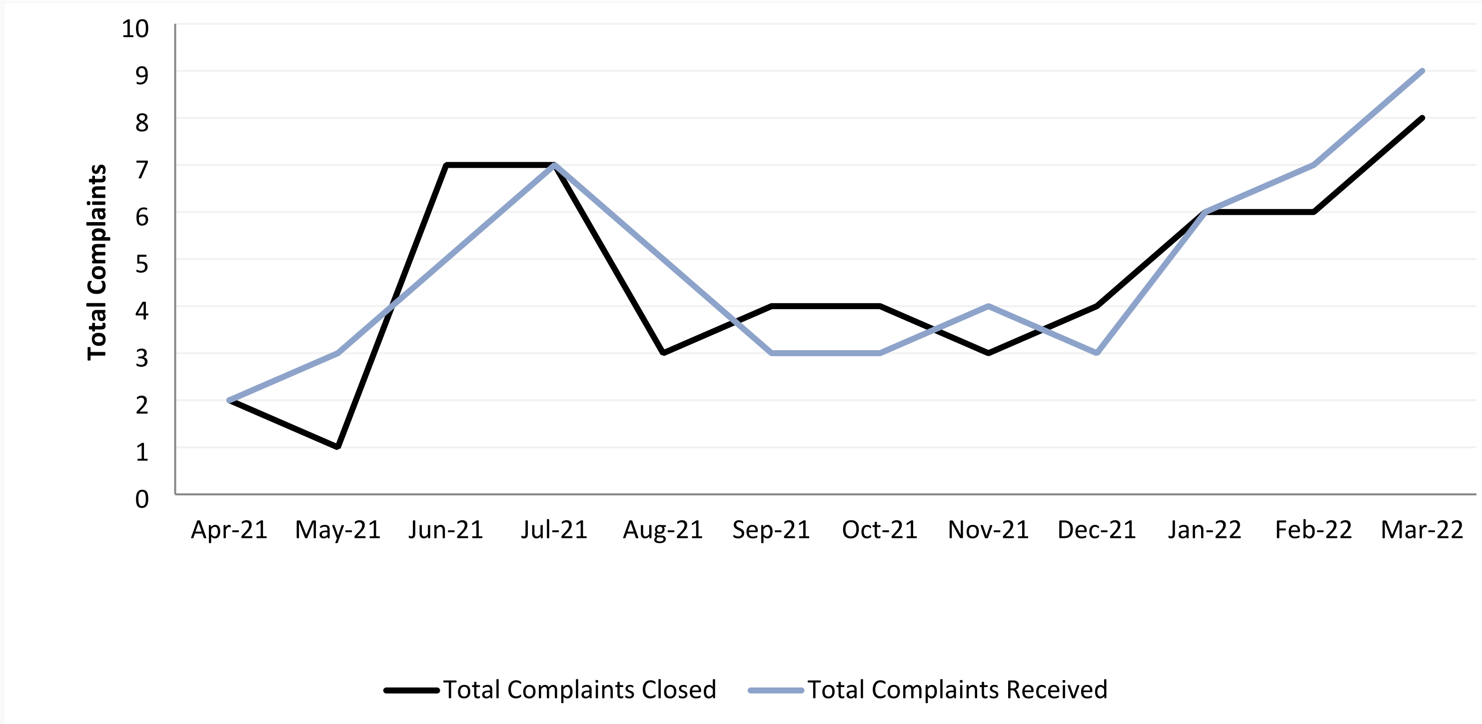
Page 312


Q1 21/22
36%
34%
3%
5%
1%
21%
Q2 21/22
37%
31%
4%
5%
2%
21%
Q3 21/22
42%
45%
3%
2%
1%
7%
Q4 21/22
44%
40%
4%
3%
1%
8%
The number of FOI requests received in period
The number of FOI requests completed in period
The number of FOI requests refused in period – Full refusal
The number of FOI requests refused in period – Partial refusal
The number of FOI internal reviews requested in period
The number of FOI requests outstanding at the end of the period

Page 313

Summary of monthly Complaints 2021/22

A low number of complaints are received by Mendip. These are resolved in the service areas and new processes or procedures are implemented where necessary to improve the services for our customers.



Pensions

The council relies on, and places assurance on, the professional judgement of the Actuary and the assumptions used to calculate this actuarial valuation. The application of International Accounting Standard (IAS) 19 has resulted in a pension liability of £40.432m (£48.378m 2020/21) shown in the Balance Sheet. This was a significant decrease of £7.946m compared to last year due to updating of the actuary assumptions re discount, pension and salary interest rates reflecting the fall in the stock market. Should this position continue until the next tri-annual valuation date, this could impair the council's finances in terms of ongoing contribution rates and deficit recovery payments.

Risks and uncertainties

A risk management strategy is in place to identify and evaluate risks. There are clearly defined steps to support better decision making through the understanding of risks and their likely impact. The risk management process was audited recently and satisfied all assurance requirements and is scrutinised regularly by the council's Audit Committee. The Annual Governance Statement action plan has further details on significant governance issues facing the council.

Economic climate

The May 2022 Bank of England Inflation Report can be read here

Since the February Report, global inflationary pressures have intensified sharply following Russia's invasion of Ukraine. This has led to a material deterioration in the outlook for world and UK growth. These developments have exacerbated greatly the combination of adverse supply shocks that the UK and other countries continue to face. They accentuate the extent to which UK CPI inflation is well above the 2% target over the first two years of the
CPI inflation is expected to peak at over 10% in 2022 Q4 reflecting higher household ebergy supply costs. Firms expect to increase their prices given the sharp rise in costs ,to rebuild some of their margins. There is considerable uncertainty over MOC projections.Uk growth slowed sharply over first half of projections. total real household disposable income is projected to fall in 2022 by the second largest since records began in 1964 thereafter picking up. Unemployment is expected to decline in the near term but it rises to 5.5% given the sharp slow down in demand growth and excess supply rises to 2.25%

Key Accounting Issues for 2021/22

Changes to the CIPFA 2021/22 Accounting Code and Prudential Code

- There are no new codes for implementation in 2021/22 as IFRS16 (in respect of leases) is deferred until 1 April 2024
- Key changes to the Prudential and Treasury Management Codes – Authorities are not permitted to borrow primarily for financial return. Authorities are not required to sell current commercial investments, however should determine exit viability for commercial investments in lieu of taking borrowing.
- Minimum revenue provision (MRP) changes – From April 2023, an authority must not reduce its MRP by using capital receipts instead of making a prudent charge to the revenue account via Regulation 23 (use of capital receipts) and must not exclude portions of their debt from the MRP determination.

Also, the future implications of the Financial Management code in respect of 2021/22 are reflected in the Annual Governance Statement.

Debts
In preparing financial statements the council has considered the recoverability of debt and the potential need to recognise impairments. The council has set aside earmarked provisions for increased bad debts from COVID-19 and has in previous years earmarked reserves for collection fund deficits that might arise in challenging times such as these with the detrimental economic effects of the pandemic.

Uncertainty and related disclosures
The uncertainties created by the pandemic have also significantly increased volatility and uncertainty in markets. In this environment a sharper focus is on asset valuations, used in the preparation of accounts. This applies not only to non-current operational and non-operational property assets held by authorities, but also to investment properties, financial assets and many assets held by pension funds. In this year end the effects of COVID-19 considered include possible asset impairment from measuring assets and liabilities at the balance sheet date.

There are additional, non-adjusting, post balance sheet events relating to the ongoing pandemic. These additional disclosures in financial statements in relation to major sources of estimation uncertainty are in respect of;

- Going Concern - the accounts are prepared based on going concern and following an analysis of the impact of COVID-19 on the council's budget, MTRS and reserves the S151 Officer is satisfied that this is the case.
- Pensions, the latest advice is the position has improved post March
- Property, Plant and Equipment. The valuers have stated that our valuation is not reported as being subject to 'material valuation uncertainty' as defined by VPS 3 and VPGA 10 of the RICS Valuation – Global Standards.

The investment property exposure of the council by sector is

Sector	Purchase Price (£m) exc on costs	Sector Profile (%)	Gross Rental (£m)	Sector Profile (%)
Office	15.438	32%	0.931	31%
Retail	15.189	32%	0.984	33%
Industrial/Logistics	17.261	36%	1.067	36%
Total	**47.888**		**2.982**	

As required, we have considered forward looking information (including macro-economic information) in assessing whether there has been a significant increase in credit risk and when measuring expected credit losses and consider that Mendip is not impacted.

The pressure illustrated in the MTFP in February 2021 will partly transfer from 2022/23 to 2023/24, outside of the financial impacts of COVID-19. To balance the budget there will be a continuing need for service transition, transformation, efficiencies, additional income streams and other saving initiatives for the foreseeable future. The budget was set during a period of continuing economic recovery from the coronavirus pandemic. However, since the MTFP was approved, the conflict in Ukraine has added further volatility and contributed to rising, significant and persistent inflation and rising interest rates. The Ofgem price cap rise in April 2022 (further rise anticipated in October 22) resulted in a significant rise in energy and fuel prices which are a significant factor in the increasing inflation rates. The council has always used cash flow forecasting to assist with treasury management decisions, however it has gained greater significance as unplanned expenditure has been required to deal with the emerging situation and specific grants to deal with COVID-19 have been paid and received.

For 2021/22 as a whole, through careful planning and management, Mendip District Council has ensured we achieved or made good progress with our priorities for the year and net underspend of £730k of overall budget and have, despite COVID-19, reached the end of the business year in a sound financial position. This will serve us well in facing the uncertainties ahead in 2022/23 as we respond to the challenges of Coronavirus and continue to work towards achieving our vision and goals. During 2022/23 work will continue on numerous workstreams in preparation for delivering the new unitary Somerset Council.

THE COUNCIL'S RESPONSIBILITIES

The council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this council, that officer was the Corporate Financial Advisor, Richard Bates

- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

- Approve the Statement of Accounts.

CHAIRMAN OF AUDIT COMMITTEE CERTIFICATE

I certify that the Statement of Accounts 2021/22 has received the full approval of Audit Committee.

Signed ……………………………………............……….……… **Date ....**

Councillor Rob Ayres
Chairman, Audit Committee

Page 319

CHIEF FINANCE OFFICER RESPONSIBILITIES

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

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,
- complied with the local authority Code.

The Section 151 Officer also*:*

- has kept proper accounting records which were up to date.

- has taken reasonable steps for the prevention and detection of fraud and other irregularities.

CHIEF FINANCE OFFICER CERTIFICATE

I certify that the Statement of Accounts 2021/22 present a true and fair view of the financial position of the council (the Balance Sheet) and of its income and expenditure for the year ended 31 March 2022.

Signed ……………………………….............………..……… Date ....

Jason Vaughan FCCA, CPFA. IRRV (Hons)
Executive Director - Resources & Corporate Services & S151

3 COMPREHENSIVE INCOME AND EXPENDITURE – PRIMARY STATEMENT

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

Services	Note	2020/21 Gross Expenditure £000	2020/21 Gross Income £000	2020/21 Net Expenditure £000	**2021/22 Gross Expenditure £000**	**2021/22 Gross Income £000**	**2021/22 Net Expenditure £000**
Corporate		1,108	(355)	753	**1,158**	**(134)**	**1,024**
Law & Governance		1,605	(808)	797	**1,919**	**(877)**	**1,042**
Neighbourhood		9,496	(2,339)	7,157	**9,692**	**(4,357)**	**5,335**
Community Health		2,078	(344)	1,734	**2,445**	**(423)**	**2,022**
Planning & Growth		4,890	(1,747)	3,143	**5,608**	**(1,480)**	**4,128**
Housing		3,225	(1,663)	1,562	**3,793**	**(2,115)**	**1,678**
5 Council Contract		21,163	(19,018)	2,145	**22,085**	**(19,002)**	**3,083**
Strategic Leadership Team		5,990	(3,932)	2,058	**4,551**	**(3,731)**	**820**
Transformation		206	0	206	**55**	**0**	**55**
Shape Housing Limited		1	5	6	**0**	**(6)**	**(6)**
Cost of Services		49,762	(30,201)	19,561	**51,306**	**(32,125)**	**19,181**
Other Operating Expenditure	3.04	4,512	(488)	4,024	**4,869**	**(576)**	**4,293**
Financial & Investment Income	3.05	7,520	(3,406)	4,114	**2,272**	**(3,393)**	**(1,121)**
Taxation and non-specific grant income and expenditure	3.06	20,252	(44,695)	(24,443)	**15,836**	**(39,528)**	**(23,692)**
(Surplus) or Deficit on provision of services		82,046	(78,790)	3,256	**74,283**	**(75,622)**	**(1,339)**
(Surplus) or Deficit on the Revaluation of plant, property & equipment assets				(706)			**2,357**
Remeasurement of the net defined benefit liability/(asset)				8,255			**(14,927)**
Other Comprehensive Income and Expenditure				7,549			**(12,570)**
Total Comprehensive Income and Expenditure				10,805			**(13,909)**

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 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 for the year. The Net Increase/Decrease line shows the statutory General Fund Balance in the year following those adjustments.

2021/22	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£000	£000	£000	£000	£000	£000
Balance at 31 March 2021 brought forward	21,892	525	1,749	24,166	(34,622)	(10,456)
Movement in Reserves during 2021/22						
Total Comprehensive Income & Expenditure	**1,339**	**0**	**0**	**1,339**	**12,570**	**13,909**
Adjustments between accounting basis & funding basis under regulation (Note 4.01)	(5,984)	0	196	(5,788)	5,788	0
Increase or decrease in year	**(4,645)**	**0**	**196**	**(4,449)**	**18,358**	**13,909**
Balance at 31 March 2022 carried forward	**17,247**	**525**	**1,945**	**19,717**	**(16,264)**	**3,453**

2020/21	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied Account £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000
Balance at 31 March 2020 brought forward	12,696	525	1,387	14,608	(14,259)	349
Movement in Reserves during 2020/21						
Total Comprehensive Income & Expenditure	**(3,256)**	**0**	**0**	**(3,256)**	**(7,549)**	**(10,805)**
Adjustments between accounting basis & funding basis under regulation	12,452	0	362	12,814	(12,814)	0
Increase or decrease in year	**9,196**	**0**	**362**	**9,558**	**(20,363)**	**(10,805)**
Balance at 31 March 2021 carried forward	**21,892**	**525**	**1,749**	**24,166**	**(34,622)**	**(10,456)**

The balance sheet shows the value of the assets and liabilities recognised by the council as at the balance sheet date. The net assets of the councils (assets less liabilities) are matched by the reserves held by the council.

	Note	31 March 2021 £000	**31 March 2022 £000**
Property, Plant and Equipment	5.01		
Other Land and Buildings		20,400	**18,398**
Vehicles, Plant and Equipment		639	**750**
Infrastructure Assets		384	**358**
Community Assets		1,351	**1,351**
Surplus Assets		369	**223**
Assets Under Construction		14	**0**
		23,157	**21,080**
Investment Properties	5.02	52,084	**54,350**
Heritage Asset	5.03	132	**132**
Intangible Assets	5.04	262	**376**
Long term Debtors	5.07	9,312	**9,646**
Long-term Assets		84,947	**85,584**
Assets Held for Sale	5.05	0	**18**
Short-term Investments		12,917	**19,990**
Short-term Debtors	5.07	19,590	**10,712**
Cash and Cash Equivalents	5.08	10,536	**13,790**
Current Assets		43,043	**44,510**
Short-term Borrowing	5.09	(62)	**(51)**
Short-term Creditors	5.10	(22,035)	**(23,844)**
Provisions	5.11	(911)	**(1,340)**
Current Liabilities		(23,008)	**(25,235)**
Long-term Creditors	5.10	(237)	**(203)**
Long-term Borrowing	5.09	(62,856)	**(62,839)**
Liability Related to Defined Benefit Pension Scheme	5.18	(48,378)	**(35,414)**
Grants Receipts in Advance - Capital	5.15	(1,620)	**(2,049)**
Grants Receipts in Advance - Revenue	5.15	(2,347)	**(901)**
Long-term Liabilities		(115,438)	**(101,406)**
Net Assets		(10,456)	**3,453**

Page 323

Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves the council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve may only be used to fund capital expenditure or repay debt). The second category of reserves is those the council is not able to use to provide services. This category of reserves includes reserves hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets were sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.
Note, some totals may not cast by £1,000 rounding's but need to remain to reconcile through the accounts.

	Note	31 March 2021 £000	**31 March 2022 £000**
Usable Reserves	5.12		
General Fund		1,684	**2,415**
Earmarked Reserves	5.12.1	20,208	**14,832**
Capital Receipts Reserve		525	**525**
Capital Grants Unapplied		1,749	**1,945**
		24,166	**19,717**
Unusable Reserves			
Revaluation Reserve	5.13.1	16,514	**13,981**
Capital Adjustment Account	5.13.2	(208)	**2,902**
Deferred Capital Receipts Reserve	5.13.3	5,940	**5,883**
Pensions Reserve	5.13.4	(48,372)	**(35,407)**
Collection Fund Adjustment Account	5.13.5	(8,242)	**(3,381)**
Accumulated Absences Account	5.13.6	(254)	**(242)**
		(34,622)	**(16,264)**
Total Reserves		(10,456)	**3,453**

These financial statements replace the unaudited financial statements certified by Richard Bates, Corporate Financial Advisor and S151 Officer on 31 July 2022.

Signed ………………………………………….……..…… **Date ……………………………**
Jason Vaughan FCCA, CPFA. IRRV (Hons)
Executive Director - Resources & Corporate Services & S151

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.

This cash flow statement is prepared using the indirect method whereby the Surplus or Deficit on the Provision of Services is adjusted for non-cash items, removing the effects of accruals and extracting transactions relating to investing or financing activities.

	2020/21 £000	**2021/22** **£000**
Net surplus or (deficit) on the provision of service	(3,256)	**1,339**
Adjustments to net surplus or deficit on the provision of services for non-cash movements (Note 6.01)	17,758	**(1,393)**
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (6.01)	(3,604)	**(4,267)**
Net cash flows from Operating Activities	10,898	**(4,321)**
Investing Activities (Note 6.02)	(11,905)	**(6,391)**
Financing Activities (Note 6.03 and Note 6.04)	(11,245)	**13,966**
Net increase or (decrease) in cash and cash equivalents	(12,252)	**3,254**
Cash and cash equivalents at the beginning of the reporting period	22,788	**10,536**
Cash and cash equivalents at the end of the reporting period (Note 5.08)	10,536	**13,790**

3.01 EXPENDITURE AND FUNDING ANALYSIS (EFA)

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

	2020/21			**2021/22**		
	Net Expenditure chargeable to the General Fund	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement	**Net Expenditure chargeable to the General Fund**	**Adjustments between the Funding and Accounting Basis**	**Net Expenditure in the Comprehensive Income and Expenditure Statement**
	£000	£000	£000	**£000**	**£000**	**£000**
Corporate	850	97	753	**700**	**(324)**	**1,024**
Law & Governance	765	(32)	797	**918**	**(124)**	**1,042**
Neighbourhood	6,661	(496)	7,157	**5,322**	**(13)**	**5,335**
Community Health	1,701	(33)	1,734	**1,796**	**(226)**	**2,022**
Planning & Growth	3,313	170	3,143	**3,804**	**(324)**	**4,128**
Housing	1,797	235	1,562	**1,633**	**(45)**	**1,678**
5 Council Contract	2,138	(7)	2,145	**3,062**	**(21)**	**3,083**
Strategic Leadership Team	2,014	(44)	2,058	**727**	**(93)**	**820**
Transformation	198	(8)	206	**34**	**(21)**	**55**
Shape Housing Limited	6	0	6	**(6)**	**0**	**(6)**
Cost of Services	19,443	(118)	19,561	**17,990**	**(1,191)**	**19,181**
Other income and expenditure	(28,639)	(12,334)	(16,305)	**(13,345)**	**7,175**	**(20,520)**
(Surplus)/Deficit in year	(9,196)	(12,452)	3,256	**4,645**	**5,984**	**(1,339)**
Opening General Fund Balance	12,696			**21,892**		
Surplus/(Deficit) on General Fund	9,196			**(4,645)**		
Closing General Fund Balance	21,892			**17,247**		

3.02 NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments between Funding and Accounting Basis 2021/22			
	Adjustments for Capital Purposes £'000	Net Change for the Pensions Adjustments £'000	Other Differences £'000	Total Adjustments £'000
Corporate	(123)	(207)	6	(324)
Law & Governance	(4)	(129)	9	(124)
Neighbourhood	78	(98)	7	(13)
Community Health	(12)	(202)	(12)	(226)
Planning & Growth	(41)	(280)	(3)	(324)
Housing	131	(162)	(14)	(45)
5 Council Contract	0	(25)	4	(21)
Strategic Leadership Team	(64)	(50)	21	(93)
Transformation	0	(16)	(5)	(21)
Net Cost of Services	**(35)**	**(1,169)**	**13**	**(1,191)**
Other income and expenditure from the Expenditure and Funding Analysis	3,109	(794)	4,860	7,175
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**3,074**	**(1,963)**	**4,873**	**5,984**

Page 327

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments between Funding and Accounting Basis 2020/21 Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total Adjustments
	£'000	£'000	£'000	£'000
Corporate	135	(13)	(25)	97
Law & Governance	(11)	(8)	(13)	(32)
Neighbourhood	(475)	(5)	(16)	(496)
Community Health	(10)	(11)	(12)	(33)
Planning & Growth	230	(18)	(42)	170
Housing	260	(11)	(14)	235
5 Council Contract	0	(2)	(5)	(7)
Strategic Leadership Team	(10)	(12)	(22)	(44)
Transformation	0	(1)	(7)	(8)
Net Cost of Services	**119**	**(81)**	**(156)**	**(118)**
Other income and expenditure from the Expenditure and Funding Analysis	(3,125)	(756)	(8,453)	(12,334)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**(3,006)**	**(837)**	**(8,609)**	**(12,452)**

Adjustments for Capital Purposes

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

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

Net change for the Pensions Adjustments

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

- For **Services** this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
- For **Financing and Investment Income and Expenditure –**the net interest on the defined benefit liability is charged to the CIES.

Other Differences

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

- For **Services** this represents the change in the accumulated absences reserve attributable to each service.
- For **Financing and Investment Income and Expenditure** the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.
- The charge under **Taxation and Non-Specific Grant Income and Expenditure** represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

3.03 EXPENDITURE AND INCOME ANALYSED BY NATURE

The authority's expenditure and income are analysed in the table below. The CIES shows how this income and expenditure is split across the services of the council, known as segmental reporting, without the need for any further breakdown of the income and expenditure.

	2020/21 £000	2021/22 £000
Expenditure		
Employee benefits expenses	8,669	**10,793**
Other services expenses	39,288	**39,095**
Depreciation, amortisation, impairment	1,805	**1,419**
Interest payments	1,321	**1,319**
Changes in fair value of investment properties	5,297	**5**
Precepts and levies	4,512	**4,869**
Non-domestic rates tariff, levy & deficit charges	20,252	**15,836**
Pensions interest cost and expected return on pensions assets	902	**947**
Total expenditure	82,046	**74,283**
Income		
Fees, charges and other service income	(5,165)	**(7,268)**
Interest and investment income	(3,406)	**(3,392)**
Income from council tax, non-domestic rates, district rate income	(37,414)	**(34,405)**
Government grants and contributions	(32,316)	**(29,981)**
Loss/(Gain) on the disposal of assets	(488)	**(576)**
Total income	(78,790)	**(75,622)**
(Surplus) or Deficit on the Provision of Services	3,256	**(1,339)**

3.04 OTHER OPERATING EXPENDITURE

	2020/21 £000	**2021/22 £000**
Parish council & Somerset Rivers Authority precepts	4,512	**4,869**
(Gains) or loss on the disposal of non-current assets	(488)	**(576)**
	4,024	**4,293**

3.05 FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2020/21 £000	**2021/22 £000**
Interest payable and similar charges	1,322	**1,319**
Net interest on Defined Benefit Liability	902	**947**
Interest receivable and similar income	(424)	**(393)**
Income and expenditure in relation to investment properties and changes in their fair value	2,314	**(2,994)**
	4,114	**(1,121)**

3.06 TAXATION AND NON-SPECIFIC GRANT INCOME AND EXPENDITURE

	2020/21 £000	**2021/22 £000**
Council tax income	(11,641)	**(12,095)**
Non-domestic rates income	(25,774)	**(22,310)**
Non-domestic rates tariff, levy & deficit charges	20,252	**15,836**
Non-ringfenced government grants	(6,062)	**(2,945)**
Capital grants and contributions	(1,218)	**(2,178)**
	(24,443)	**(23,692)**

Council tax income includes Parish council & Somerset Rivers Authority precepts collection equal to the amount found in table 3.04.

3.07 AGENCY SERVICES

The council undertakes work on an agency basis for Somerset West & Taunton. The work includes legal services as part of a shared legal services agreement. The total reimbursable expenditure for 2021/22 was £392,126 (£390,726 in 2020/21).

In 2021/22 Mendip District Council (MDC) were the lead authority for the Somerset Business Rates pool whereby MDC retain a set £15,000 management charge. Partners of the pool include Somerset County Council, Somerset West & Taunton, South Somerset and Sedgemoor District Council.

3.08 MEMBERS ALLOWANCES

	2020/21 £000	**2021/22 £000**
Allowances	305	**305**
Expenses	8	**(2)**
	313	**303**

3.09 OFFICERS' REMUNERATION AND TERMINATION BENEFITS

3.09.1 Officer's Remuneration

The remuneration paid to the council's senior employees is as follows.

		Salary, Fees & Allowances £	Compensation for loss of Office £	Pension Contributions £	Total £
Chief Executive	**2021/22**	**115,503**	**0**	**21,599**	**137,102**
	2020/21	113,972	0	19,717	133,689
Deputy Chief Executive	**2021/22**	**89,029**	**0**	**16,648**	**105,677**
	2020/21	85,963	0	14,762	100,725
Assistant Chief Executive (Note 1)	**2021/22**	**72,629**	**0**	**0**	**72,629**
	2020/21	69,876	0	0	69,876
S151 Officer (Note 2)	**2021/22**	**162,570**	**0**	**0**	**162,570**
	2020/21	21,700	51,905	3,744	77,349
Monitoring Officer (Note 3)	**2021/22**	**73,582**	**0**	**13,900**	**87,482**
	2020/21	70,016	0	11,989	82,005

Note 1: Head of Service - Neighbourhoods remuneration is included in the Assistant Chief Executive totals as they are occupied by the same person.
Note 2: Outgoing S151 Officer vacated post 3 July 2020 (annualised salary was £75,621)
Incoming S151 Officer started 7 July 2020 as a Contractor through Penna and the total cost for 20/21 was £129,244 and was in post until 31 March 2023.
Note 3: Monitoring Officer now included (20/21 figures included for comparison although not published last year).

In 2021/22 there were 13 additional employees receiving over £50k to those shown in the senior officer's emoluments note above (20/21 figures restated as Monitoring Officer now included in the previous table for Senior Officer Remuneration note).

Remuneration Band	Number of Employees 2020/21	**Number of Employees 2021/22**
£50,000 to £54,999	2	**8**
£55,000 to £59,999	0	**0**
£60,000 to £64,999	5	**2**
£65,000 to £69,999	1	**2**
£70,000 to £74,999	0	**1**
	8	**13**

3.09.2 Termination Benefits

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

Exit Package Cost Band	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band £	
	2020/21	**2021/22**	2020/21	**2021/22**	2020/21	**2021/22**	2020/21	**2021/22**
£40,001 - £60,000	0	**0**	1	**0**	1	**0**	51,905	**0**
Total	0	**0**	1	**0**	1	**0**	51,905	**0**

3.10 EXTERNAL AUDIT COSTS

The other services provided for external audit costs relates to the HB Certification Audit.

	2020/21 £000	**2021/22 £000**
Fees payable with regard to external audit services carried out by the appointed auditor for the year*	38	**75**
Fees payable for the certification of grant claims and returns for the year	8	**8**
	46	**83**

The 2021/22 fee include the "scale fee variation – changes in work required to address professional and regulatory requirements and scope associated with risk at an estimated and unconfirmed value of £27,562. The council has been charged scale fee variation in previous years and this figure is consistent with 2020/21 charge, any dispute in costs will be considered by Public Sector Audit Appointments Ltd (PSAA).
Also fees payable for the certification of grant claims and returns for the year at value of £8,874 is an estimated cost. Other costs such as objections to the accounts could be incurred but until after the event it's unclear on whether these costs will materialise.

The 2020/21 fee does not include the "proposed increase to the scale fee due to changes in work required to address professional and regulatory requirements and scope associated risk" as proposed by Ernst Young which is a fee of £36,955 as the council haven't agreed to this fee and is being considered by Public Sector Audit Appointments Ltd (PSAA).

Page 336

3.11 MATERIAL ITEMS OF INCOME AND EXPENSE

The council incurs significant expenditure through its delivery of services and it receives significant income from a number of sources to fund this. For example, the council incurs a significant proportion of its spend on benefit payments, which is funded predominantly by government grant. This income and expenditure is reported in the Consolidated Income and Expenditure Account in these statements and is supported by notes within the same section.

The council does not consider there were any other material items of income and/or expense that were incurred and/or received in the normal day to day provision of the services.

3.12 GRANT INCOME

Grants, third party contributions and donations are recognised as due to the council when there is reasonable assurance that:

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

Amounts recognised as due to the council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify 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.

The council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2020/21:

Credited to Taxation and Non Specific Grant Income	2020/21 £000	**2021/22 £000**
New Homes Bonus Scheme Grant	(1,765)	**(1,006)**
Other Non-ring fenced Government Grants		
Other Non-ring fenced Gov Grants - COVID-19 Service Support	(3,570)	**(766)**
Other Non-ring fenced Government Grants - COVID-19 New Burdens	(436)	**(739)**
Other Non-ring fenced Government Grants	0	**(125)**
Efficiency Support in Sparse Areas	(243)	**(255)**
Council Tax Family Annexe Grant	(48)	**(54)**
Capital Grants and Contributions	(1,218)	**(2,178)**
	(7,280)	**(5,123)**

Credited to Services	2020/21 £000	**2021/22** **£000**
DWP – Benefits Subsidy	(17,254)	**(17,911)**
COVID-19 Grants	(4,356)	**(3,379)**
Disabled Facilities Grant	(1,010)	**(1,010)**
Housing (including Rough Sleepers)	(608)	**(999)**
Glastonbury Town Fund	(570)	**(290)**
DWP – Benefit Admin Grant	(256)	**(256)**
Land Release Fund	(228)	**0**
Discretionary Housing Payment	(191)	**(88)**
Capital Grants and Contributions	(186)	**0**
DWP – Council Tax Subsidy	(100)	**(104)**
Elections	(29)	**(190)**
Contributions from other Local Authorities	0	**(486)**
Other Grants	(246)	**(145)**
	(25,034)	**(24,858)**

3.13 OPERATING LEASES

3.13.1 Council as Lessee

Leases that do not meet the definition of finance leases are accounted for as operating leases and the expenditure is charged to service revenue accounts on a straight-line basis over the term of the lease. The land and buildings elements of a lease require separate identification for both lease classifications and subsequent valuation. In most cases, the land element of a lease will be an operating lease.

The future minimum lease payments under non-cancellable operating leases are:	31 March 2021 £000	**31 March 2022** **£000**
Not later than one year	9	**18**
Later than one year but not later than five years	12	**3**
Total	21	**21**

3.13.2 Council as Lessor

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 Financing and Investment 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.

The council owns a number of property, plant and equipment assets that are leased to other bodies for one or a combination of the following purposes:

- To gain rental income from its investment properties
- For economic development purposes to provide suitable affordable accommodation for local businesses.

	31 March 2021 £000	**31 March 2022 £000**
Not later than one year	3,127	**3,115**
Later than one year but not later than five years	12,136	**11,718**
Later than five years	16,451	**13,957**
Total	31,714	**28,790**

4.01 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the authority in the year in accordance with proper accounting practice to arrive at the resources that are specified by statutory provisions as being available to the authority to meet future capital and revenue expenditure. The following sets out a description of the reserves that the adjustments are made against.

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

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

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

2021/22	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000
Adjustments to the Revenue Resources			
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements			
Pensions Costs *(transferred to (or from) the Pensions Reserve)*	1,963	0	0
Council tax and NDR *(transfers to (or from) the Collection Fund)*	(4,861)	0	0
Holiday Pay (transferred to (or from) the Accumulated Absences Reserve)	(12)	0	0
Reversal of entries included in the Surplus or Deficit on the Provisions of Services in relation to capital expenditure *(these items are charged to the Capital Adjustment Account)*	(2,011)	0	196
Total Adjustments to Revenue Resources	**(4,921)**	**0**	**196**
Adjustments between Revenue and Capital Resources			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(705)	705	0
Statutory provision for the repayment of debt *(transfer from the Capital Adjustment Account)*	(333)	0	0
Capital expenditure financed from revenue balances *(transfer to the Capital Adjustment Account)*	(25)	0	0
Total Adjustments between Revenue and Capital Resources	**(1,063)**	**705**	**0**
Adjustments to Capital Resources			
Use of the Capital Receipts Reserve to finance capital expenditure	0	(762)	0
Cash payments in relation to Deferred Capital Receipts	0	57	0
Total Adjustments to Capital Resources	**0**	**(705)**	**0**
Total Adjustments	**(5,984)**	**0**	**196**

2020/21	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000
Adjustments to the Revenue Resources			
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements			
Pensions Costs (transferred to (or from) the Pensions Reserve)	837	0	0
Council tax and NDR (transfers to (or from) the Collection Fund)	8,453	0	0
Holiday Pay (transferred to (or from) the Accumulated Absences Reserve)	156	0	0
Reversal of entries included in the Surplus or Deficit on the Provisions of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	3,932	0	362
Total Adjustments to Revenue Resources	**13,378**	**0**	**362**
Adjustments between Revenue and Capital Resources			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(461)	461	0
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(440)	0	0
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(25)	0	0
Total Adjustments between Revenue and Capital Resources	**(926)**	**461**	**0**
Adjustments to Capital Resources			
Use of the Capital Receipts Reserve to finance capital expenditure	0	(512)	0
Cash payments in relation to Deferred Capital Receipts	0	51	0
Total Adjustments to Capital Resources	**0**	**(461)**	**0**
Total Adjustments	**12,452**	**0**	**362**

Page 344

5.01 PROPERTY, PLANT AND EQUIPMENT

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

Assets are initially measured at cost, comprising the purchase price plus any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

Charges to Revenue for Non-current Assets – Services and support services are debited with the following amounts to record the cost of holding non-current assets during the year:

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

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

Component Accounting - Where components of an asset are significant in value in relation to the value of the asset as a whole, and they have substantially different economic lives, they will be recognised separately. Components will be recognised separately as and when they are replaced or re-valued. Individual assets valued at less than £150,000 will be disregarded for componentisation.

Capital Expenditure and De minimis - Expenditure on the acquisition, creation or enhancement of tangible fixed assets is accounted for on an accruals basis. Capitalisation thresholds apply so for land and buildings a de minimis of £10k applies, and for plant and equipment a deminimis of £5k applies, where it meets the criteria of having a life greater than a year and/or has increased the value/life of an asset or enhanced the usability of the asset.

5.01.1 Revaluations

The council carries out a rolling programme that ensures all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years and all assets within a class are revalued simultaneously. For the 2021/22 financial year, valuations were carried out as at 31 March 2022. Increases in valuation are matched by credits to the Revaluation Reserve to recognise unrealised gains. Where decreases in value are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).

- Where there is no balance on the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement.

All valuations were carried out externally by independent valuers Capita Property and Infrastructure Ltd. Valuations of land and buildings were carried out in accordance with methodologies and basis for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant and equipment are based on current prices where there is an active second-hand market or latest list prices adjusted for the condition of the asset.

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

- Infrastructure, community assets and assets under construction - depreciated historical cost
- Surplus assets and investment property – fair value
- All other assets – current value

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

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

Fair Value - The council measures some of its non-financial assets, such as surplus assets and investment 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 the transaction to sell the asset or transfer the liability takes place either:

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

The council measures the fair value of an asset or liability on the same basis market participants would use when pricing the asset or liability (assuming those market participants were acting 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 appropriate valuation techniques for each circumstance, maximising the use of relevant known data and minimising the use of estimates or unknowns. This takes into account the three levels of categories for inputs to valuations for fair value assets:

- Level 1 – quoted prices.
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – unobservable inputs for the asset or liability.

The council's surplus assets have been assessed as Level 2 for valuation purposes.

	Other Land & Buildings	Vehicles, Plant & Equipment	Community Assets	Infrastructure assets	Surplus Assets	Assets Under Construction	Total
	£000	£000	£000	£000	£000	£000	£000
Carried at historical cost	0	2,549	1,351	782	0	0	**4,682**
Valued as at:							
31 March 2022	11,144	0	0	0	231	0	**11,375**
31 March 2021	10	0	0	0	0	0	**10**
31 March 2020	3,440	0	0	0	0	0	**3,440**
31 March 2019	3,627	0	0	0	0	0	**3,627**
31 March 2018	905	0	0	0	0	0	**905**
Total cost or valuation	**19,126**	**2,549**	**1,351**	**782**	**231**	**0**	**24,039**

5.01.2 Impairment

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

Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).

- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against relevant service lines in the Comprehensive Income and Expenditure Statement.

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

There were no impairment losses recognised in the year 2021/22 (2020/21 had no impairment losses). Impairment losses are charged to the Comprehensive Income and Expenditure Statement then reversed out to the Capital Adjustments Account through the Movement in Reserves Statement.

5.01.3 Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life and assets that are not yet available for use such as assets under construction.

Depreciation is calculated on a straight-line allocation over the useful life of the assets. Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

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

Depreciation is calculated on the following bases:

- Infrastructure - straight line allocation over the life of the asset
- Buildings – straight line allocation over the life of the property as estimated by the valuer
- Land – is not depreciated
- Assets under construction – not depreciated
- Vehicles, plant and equipment – straight line allocation over the life of the asset
- IT and Intangible Assets – straight line allocation over the life of the asset

The Useful Economic Life of assets in each category can vary depending on the type, make, construction and use of the asset. Current lives used for accounting purposes are:

- Infrastructure 3 to 25 years
- Buildings 10 to 53 years
- Land 99 years
- Vehicles, plant and equipment 1 to 5 years
- IT and Intangible Asset 3 years

5.01.4 Capital Commitments

At the 31 March 2022, the authority has entered into a number of contracts for the construction or enhancement of property, plant and equipment in 2022/23 and future years budgeted to £642k. Similar commitments at 31 March 2021 were £3,083,000 for Saxonvale, Northgate, IDOX and Asham windows.

Major commitments for 2022/23 are:

- Saxonvale project £540k
- Northgate update and Northgate cloud hosting £102k

5.01.5 Movement on Balances

2021/22	Land & Buildings £000	Vehicles, Plant & Equipment £000	Community Assets £000	Infrastructure Assets £000	Surplus Assets £000	Assets Under Construction £000	Total £000
Cost or Valuation							
At 1 April 2021	21,123	2,509	1,351	782	369	14	**26,148**
Additions	196	270	0	0	0	(14)	**452**
Revaluation increases / (decreases) recognised in the Revaluation Reserve	(2,664)	0	0	0	9	0	**(2,655)**
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the Provision of Services	451	0	0	0	18	0	**469**
Derecognition - Disposals	0	(230)	0	0	(127)	0	**(357)**
Reclassifications	20	0	0	0	(38)	0	**(18)**
At 31 March 2022	**19,126**	**2,549**	**1,351**	**782**	**231**	**0**	**24,039**
Accumulated Depreciation & Impairment							
Accumulated, at 1 April 2021	(723)	(1,870)	0	(398)	0	0	**(2,991)**
Charge in year	(301)	(159)	0	(26)	(10)	0	**(496)**
Depreciation written out to the Revaluation Reserve	297	0	0	0	1	0	**298**
Derecognition - Disposals	0	230	0	0	0	0	**230**
Reclassifications	(1)	0	0	0	1	0	**0**
At 31 March 2022	**(728)**	**(1,799)**	**0**	**(424)**	**(8)**	**0**	**(2,959)**
Net Book Value							
At 31 March 2022	18,398	750	1,351	358	223	0	**21,080**
At 31 March 2021	20,400	639	1,351	384	369	14	**23,157**

2020/21	Land & Buildings £000	Vehicles, Plant & Equipment £000	Community Assets £000	Infrastructure Assets £000	Surplus Assets £000	Assets Under Construction £000	Total £000
Cost or Valuation							
At 1 April 2020	20,326	2,085	1,221	782	379	14	**24,807**
Additions	99	471	130	0	2	0	**702**
Revaluation increases / (decreases) recognised in the Revaluation Reserve	698	0	0	0	8	0	**706**
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the Provision of Services	0	0	0	0	(15)	0	**(15)**
Derecognition - Disposals	0	(47)	0	0	(5)	0	**(52)**
Reclassifications	0	0	0	0	0	0	**0**
At 31 March 2021	**21,123**	**2,509**	**1,351**	**782**	**369**	**14**	**26,148**
Accumulated Depreciation & Impairment							
Accumulated, at 1 April 2020	(497)	(1,740)	(26)	(385)	(4)	0	**(2,652)**
Charge in year	(226)	(167)	26	(13)	0	0	**(380)**
Derecognition - Disposals	0	47	0	0	4	0	**51**
Reclassifications	0	(10)	0	0	0	0	**(10)**
At 31 March 2021	**(723)**	**(1,870)**	**0**	**(398)**	**0**	**0**	**(2,991)**
Net Book Value							
At 31 March 2021	20,400	639	1,351	384	369	14	**23,157**
At 31 March 2020	19,829	345	1,195	397	375	14	**22,155**

5.02 INVESTMENT PROPERTIES

An investment property is defined as a property which is held exclusively for revenue generation or for the capital gains that the asset is expected to generate. In this respect, the asset is not used directly to deliver the council's services.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are re-valued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal. There are no restrictions on the council's ability to realise the value inherent in its investment property or on the council's right to the remittance of income and the proceeds of disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any proceeds greater than £10k) the Capital Receipts Reserve.

Fair Value - The council's investment property portfolio has been assessed as Level 2 for valuation purposes (see Note 5.01.1 for explanation of fair value levels).

Valuations have taken account of the following factors: existing lease terms and rentals taken from the tenancy schedule, independent research into market evidence including market rentals and yields, and then adjusted to reflect the nature of each business tenancy or void and the covenant strength for existing tenants. There has been no change in the valuation techniques used during the year for investment properties.

5.02.1 Investment Properties (Gain & Loss)

	2020/21 £000	**2021/22** **£000**
Rental income from investment property	2,982	**2,999**
Net gain/(loss)	**2,982**	**2,999**

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

5.02.2 Investment Properties (Fixed Assets)

	2020/21 £000	**2021/22** **£000**
Balance at start of year	55,985	**52,084**
Additions	1,396	**2,271**
Net gains or (losses) from fair value adjustments	(5,297)	**(5)**
Balance at the end of the year	52,084	**54,350**

5.03 HERITAGE ASSETS

Bishops Barn is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

	2020/21 £000	**2021/22 £000**
Balance at start of year	131	**132**
Depreciation Reversal	1	**0**
Balance at the end of the year	132	**132**

5.04 INTANGIBLE ASSETS

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

Intangible assets are measured initially at cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service area in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication the asset might be impaired. 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.

The council accounts for its software as intangible assets, to the extent 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 the software is expected to be of use to the council. The useful life assigned to the major software suites used by the council is three years.

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £139k charged to revenue in 2021/22 was charged to the relevant cost centre and then absorbed as an overhead across all the service headings in the Net Expenditure of Services.

	2020/21 £000	**2021/22 £000**
Balance at the start of year:		
Gross carrying amounts	329	**400**
Accumulated amortisation	(274)	**(138)**
Net carrying amount at the start of the year	55	**262**
Additions - purchases	275	**253**
Disposals	(204)	**(43)**
Amortisation for the period	(78)	**(139)**
Other changes - Amortisation on disposals	204	**43**
Other changes - Amortisation on reclassification	10	**0**
Net carrying amount at the end of year	262	**376**
Comprising:		
Gross carrying amounts	400	**610**
Accumulated amortisation	(138)	**(234)**
Total	262	**376**

5.05 ASSETS HELD FOR SALE

The council own Land at Dalleston, Binegar as at 31 March 2022 that has been advertised for auction in February 2022.

	2020/21 £000	**2021/22** **£000**
Balance at start of year	0	**0**
Transfers to/from Property, Plant and Equipment	0	**18**
Balance at the end of the year	0	**18**

5.06 FINANCIAL INSTRUMENTS

Categories of Financial Instruments

Financial liabilities are recognised on the balance sheet when authority 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 (CIES) for interest payable are based on the carrying amount of liability, multiplied by the effective rate of interest for the instrument. The effective rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For borrowings the authority has, this means the amount presented in the balance sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the CIES is the amount payable for the year according to the loan agreement.

Financial assets are classified based on a classification and measurement approach reflects the business model for holding the financial assets and their cashflow characteristics.

There are three main classes of financial assets measured at:

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

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

Financial assets measured at amortised cost are recognised on the Balance Sheet when the authority 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 (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the authority, 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.

Expected Credit Loss Model Expected credit losses for all of financial assets held at amortised cost are recognised either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables, and contract assets and trade receivables with a significant financing component. Due to our ECLM not being material no changes to the accounts have been made and no disclosures included.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses.

Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.
For trade and contract receivables without a significant financing component the council has applied a simplified approach consistently to calculate expected credit losses, under which impairment losses are automatically based on lifetime expected credit losses, removing the need to consider changes in credit risk since initial recognition

In accordance with the Code of Accounting Practice, no impairment loss allowance is recognised for monies owed by Central and Local Government bodies.

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

Financial Assets	Non-current				Current				Total	
	Cash & Cash Equivalents / Investments		Debtors		Cash & Cash Equivalents / Investments		Debtors			
	31 March 2021 £000	**31 March 2022 £000**	31 March 2021 £000	**31 March 2022 £000**	31 March 2021 £000	**31 March 2022 £000**	31 March 2021 £000	**31 March 2022 £000**	31 March 2021 £000	**31 March 2022 £000**
Amortised cost-other	0	**0**	9,312	**9,646**	23,453	**33,780**	2,920	**2,193**	35,685	**45,619**
Total Financial Assets	0	**0**	9,312	**9,646**	23,453	**33,780**	2,920	**2,193**	35,685	**45,619**
Non-financial instruments balance	0	**0**	0	**0**	0	**0**	16,670	**8,519**	16,670	**8,519**
Total	0	**0**	9,312	**9,646**	23,453	**33,780**	19,590	**10,712**	52,355	**54,138**

Financial Liabilities	Non-current				Current				Total	
	Borrowings		Creditors		Borrowings		Creditors			
	31 March 2021 £000	**31 March 2022 £000**	31 March 2021 £000	**31 March 2022 £000**	31 March 2021 £000	**31 March 2022 £000**	31 March 2021 £000	**31 March 2022 £000**	31 March 2021 £000	**31 March 2022 £000**
Amortised costs	(62,856)	**(62,839)**	(237)	**(203)**	(62)	**(51)**	(2,940)	**(1,527)**	(66,095)	**(64,620)**
Total Financial Liabilities	(62,856)	**(62,839)**	(237)	**(203)**	(62)	**(51)**	(2,940)	**(1,527)**	(66,095)	**(64,620)**
Non-financial instruments balance	0	**0**	0	**0**	0	**0**	(19,095)	**(22,317)**	(19,095)	**(22,317)**
Total	(62,856)	**(62,839)**	(237)	**(203)**	(62)	**(51)**	(22,035)	**(23,844)**	(85,190)	**(86,937)**

Income, Expense, Gains and Losses

Income Expense Gains & Losses	2020/21 Surplus or Deficit on Provision of Services £000	**2021/22 Surplus or Deficit on Provision of Services £000**
Interest Expense:		
Financial liabilities measured at amortised cost	(1,321)	**(1,319)**
Total Expense	(1,321)	**(1,319)**
Interest Revenue:		
Financial assets measured at amortised cost	177	**185**
Total Income	177	**185**
Net Gain / (Loss) for the year	(1,144)	**(1,134)**

Page 359

Page 360

Fair Value Measurement of Financial Assets

Fair value of an asset is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value measurements of the authority’s financial assets are based on the following techniques:

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

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

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

Fair Value of Financial Assets and Liabilities Not Measured at Fair Value

All financial liabilities and financial assets held by the council are carried in the balance sheet as amortised cost.

- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March.
- The fair values of finance lease assets and liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate corporate bond yield, except where it is judged this is not appropriate.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount given the low and stable interest rate environment.

Financial Assets & Liabilities	31 March 2021 Carrying Amount £000	31 March 2021 Fair Value £000	31 March 2022 Carrying Amount £000	31 March 2022 Fair Value £000
Financial Assets				
Amortised cost - Cash and cash equivalents / Investments	23,453	23,453	**33,780**	**33,780**
Amortised cost - Short term debtors	2,920	2,920	**2,193**	**2,193**
Long term debtors	9,312	9,312	**9,646**	**9,646**
Total Financial Assets	35,685	35,685	**45,619**	**45,619**
Financial Liabilities				
Amortised cost - Short term borrowing	(62)	(62)	**(51)**	**(51)**
Amortised cost - Short term creditors	(2,940)	(2,940)	**(1,527)**	**(1,527)**
Long term borrowing	(62,856)	(63,137)	**(62,839)**	**(57,737)**
Long term creditors	(237)	(237)	**(203)**	**(203)**
Total Financial Liabilities	(66,095)	(66,376)	**(64,620)**	**(59,518)**

The fair value of borrowing is lower than carrying amount because council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is lower than the prevailing rates of the balance sheet date. This shows notional future gain (based on economic conditions at 31 March 2022) arising from a commitment to pay interest below current market rate.

5.07 DEBTORS

Income is recognised in the accounts when it becomes due. Income that is due but has not been received at the end of the financial year is carried under the debtors heading in the balance sheet.

This debtor balance is reviewed at each year end to assess the recoverability of the sums due and where it is doubtful debts will be settled the balance of debtors is written down and an impairment charge made to the relevant account for the income that might not be collected. This assessment is carried out using the council's experience and current knowledge of collection rates for different groups of debtors.

Table on following page.

	31 March 2021 £000	31 March 2022 £000
Short-term Debtors		
Central government bodies	1,496	**4,643**
Central government bodies net debt	1,496	**4,643**
Other local authorities	847	**363**
Other local authorities net debt	847	**363**
NHS Bodies	0	**11**
NHS Bodies net debt	0	**11**
Council Tax	2,017	**1,290**
Council Tax net debt	2,017	**1,290**
Non Domestic Rates	12,358	**851**
Non-domestic rates net debt	12,358	**851**
Housing Benefits	1,836	**2,038**
Impairment allowance	(1,347)	**(1,156)**
Housing benefit net debt	489	**882**
Sundry	2,383	**2,672**
Sundry debtors net debt	2,383	**2,672**
Net position at 31 March	19,590	**10,712**
Long-term Debtors		
Car loans	1	**0**
Warranties	53	**46**
Other long-term loans	9,258	**9,600**
Net position at 31 March	9,312	**9,646**

5.08 CASH AND CASH EQUIVALENTS

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and are readily convertible to known amounts of cash with insignificant risk of change in value.

	31 March 2021 £000	**31 March 2022 £000**
Cash held by the Authority	2	**0**
Bank current accounts	1,230	**2,790**
Short-term deposits	9,304	**11,000**
Net position at 31 March	10,536	**13,790**

5.09 BORROWINGS

The Balance Sheet carries the principal amount repayable (plus accrued interest). Interest is charged to the Comprehensive Income and Expenditure statement in accordance with the loan agreement.

The short-term borrowing includes a loan that is repayable at fixed rate in the money market and an element of the long-term debt that is due within the next year.

The long-term borrowing includes loans with PWLB, the latest ones repayable by 2069. Two other loans; one from Somerset County Council and the other from M&G Investments which are repayable by 2027.

	31 March 2021 £000	**31 March 2022 £000**
PWLB	(34)	**(34)**
Other	(28)	**(17)**
Short Term Borrowing	(62)	**(51)**
PWLB	(62,793)	**(62,793)**
Other	(63)	**(46)**
Long Term Borrowing	(62,856)	**(62,839)**

5.10 CREDITORS

Creditors are all amounts owed by the council as at 31 March 2022.

	31 March 2021 £000	**31 March 2022 £000**
Short-term Creditors		
Central Government Bodies	(3,802)	**(18,654)**
Other Local Authorities	(2,239)	**(618)**
Council Tax	(467)	**(1,671)**
Non Domestic Rates	(12,806)	**(824)**
Housing Benefits	(744)	**(23)**
Sundry	(1,977)	**(2,054)**
Balance at 31 March	(22,035)	**(23,844)**
Long-term Creditors		
Long Term Rent Deposits	(237)	**(203)**
Balance at 31 March	(237)	**(203)**

5.11 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 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 a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

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

	Balance at 31 March 2021 £000	**Additional provisions made in 2021/22 £000**	**Amounts used in 2021/22 £000**	**Unused amounts reversed in 2021/22 £000**	**Balance at 31 March 2022 £000**
NDR Appeals	(605)	(92)	323	0	(374)
5C Contract Review	(185)	(781)	0	0	(966)
Legal Costs	(100)	0	57	43	0
Insurance Claims	(21)	0	0	21	0
Total	(911)	**(873)**	**380**	**64**	**(1,340)**

A provision has been made for the estimated success of appeals which are made when businesses believed they've been incorrectly charged due to their rateable value of their property. These appeals are logged with the valuation office and we've made a provision on current appeals outstanding, basing our calculation on successful historic appeals up to March 2022. These are likely to materialise throughout the year depending on the valuation office's time constraints.

A provision has been made for 5Cs contract due to an uplift in the baseline for the services that have been provided.

5.12 USABLE RESERVES

The council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so 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, retirement and employee benefits, these do not represent usable resources for the council – these are capital reserves. The Capital Receipts Reserve and S106 reserves are examples of this.

- General Fund - the primary fund of the council. It records all assets and liabilities of the council that are not assigned to a special purpose fund. It provides the resources necessary to sustain the day-to-day activities and thus pays for all administrative and operating expenses.

- Earmarked Reserves - The council has a number of earmarked reserves and details of the main earmarked reserves are shown below.

- Capital Receipts Reserve - represents the capital receipts available to finance capital expenditure in future years, after setting aside any statutory amounts for the repayment of loans. The receipt arising from the disposal of an asset will be classed as a capital receipt, to be used to finance capital expenditure, if it is greater than £10k. If the receipt falls below this threshold it will fall to the income and expenditure account, in accordance with the Local Government Act 2003.

- Capital Grants Unapplied Reserve - where a capital grant or contribution has been recognised as income in the Comprehensive Income and Expenditure Statement, but the expenditure to be financed from that grant or contribution has not been incurred at the Balance Sheet date, the grant or contribution shall be transferred to the Capital Grants Unapplied Reserve. These balances are a capital resource available to finance expenditure.

Movements in the council's usable reserves are detailed in 4 Movement in Reserves Statement and Note 4.01 Adjustments between Accounting Basis and Funding Basis under Regulation.

The balances of the individual reserves can be seen on the Balance Sheet.

5.12.1 Transfer to or from Earmarked Reserves

Earmarked reserves are created for specific purposes that span financial years for which there is a definitive time frame. For example, District Elections are held every four years but funds are transferred to earmarked reserves annually for this purpose to prevent a disproportionate increase on the council tax every 4 years. These are revenue reserves. The note below sets out the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2021/22.

Table on following page.

	Balance at 1 April 2020 £000	Transfer In 2020/21 £000	Transfer Out 2020/21 £000	Transfer Between Reserves 2020/21 £000	Balance at 31 March 2021 £000	**Transfer In 2021/22 £000**	**Transfer Out 2021/22 £000**	**Transfer Between Reserves 2021/22 £000**	**Balance at 31 March 2022 £000**
Collection Fund Reserve	0	8,523	0	0	8,523	**500**	**(4,576)**	**0**	**4,447**
Budget Smoothing	500	0	0	4,979	5,479	**0**	**(70)**	**(1,500)**	**3,909**
LGR Transition	0	0	0	0	0	**0**	**(112)**	**1,200**	**1,088**
Maintenance for Investment Properties	886	0	0	0	886	**0**	**0**	**0**	**886**
5 Councils Contract Smoothing	0	0	0	0	0	**0**	**(302)**	**591**	**289**
Cleaner/Greener Mendip	0	0	0	0	0	**0**	**(127)**	**696**	**569**
Saxonvale	598	0	(100)	0	498	**0**	**(14)**	**0**	**484**
2022/23 Corporate Priorities	0	0	0	0	0	**0**	**0**	**383**	**383**
Planning Policy	407	0	(192)	0	215	**0**	**(53)**	**161**	**323**
Shape Housing	250	0	0	0	250	**0**	**0**	**0**	**250**
Flexible Homelessness Support Grant	249	0	0	0	249	**0**	**0**	**(28)**	**221**
Homeless Reduction Act	184	204	0	0	388	**0**	**0**	**(184)**	**204**
Carry forward balances for 2021/22 Projects	0	394	0	0	394	**0**	**(175)**	**(20)**	**199**
COVID-19	276	279	0	224	779	**0**	**0**	**(591)**	**188**
Levelling Up	0	0	0	0	0	**125**	**0**	**60**	**185**
Mendip Rough Sleeper Initiative	84	44	0	0	128	**56**	**0**	**0**	**184**
Joint Working with Parish Councils	175	0	0	0	175	**0**	**0**	**0**	**175**
Special Expenses Rate (SER)	65	0	0	0	65	**61**	**0**	**0**	**126**
Economic Development Technical Analysis	320	0	0	0	320	**0**	**(87)**	**(130)**	**103**
Environmental Impact Funding	99	0	0	0	99	**0**	**0**	**0**	**99**
Local Community Initiatives	175	0	0	0	175	**0**	**(76)**	**0**	**99**
Multi-user Paths	0	0	0	0	0	**0**	**(226)**	**300**	**74**
Glastonbury Towns Fund	140	0	0	0	140	**0**	**(140)**	**70**	**70**
District Elections	0	0	0	0	0	**52**	**0**	**0**	**52**
Total of small reserves less than £50k each	6,644	26	(22)	(5,203)	1,445	**33**	**(245)**	**(1,008)**	**225**
Total Earmarked Reserves	11,052	9,470	(314)	0	20,208	**827**	**(6,203)**	**0**	**14,832**

A brief description of some reserves with balances over £50k is provided below.

Collection Fund Reserve
This fund is used to account for the timing differences within the collection fund, thus the impact of current year that will be settled in future years.

Budget Smoothing
Medium Term Financial Plan (MTFP) Reserve for potential budget fluctuations and one-off costs.

LGR Transition
Anticipated future costs relating to the becoming a Unitary Authority.

Maintenance for Investment Properties
This fund is required for maintenance to investment properties.

5 Council Contract Smoothing
Reserve for future 5 Council Contract Smoothing.

Cleaner/Greener Mendip
Reserve to help Mendip become cleaner and greener district to live.

Saxonvale
Created by Phoenix Board to enable further works, testing, remediation and purchase of additional land for the development.

2022/23 Corporate Priorities
Council Corporate Priorities for the financial year 2022/23.

Planning Policy
This reserve is to fund local planning and planning policy work in future years.

Shape Housing
Costs of maintaining Shape Housing subsidiary for development projects.

Flexible Homelessness Support Grant
MCHLG funding to reduce homelessness.

Homeless Reduction Act
New Burdens funding to deliver new legislation for the Homeless Reduction Act.

Carry Forward Projects
Carry forward balances from 2020/21 for 2021/22 Projects.

COVID-19
Given the uncertainty of how much funding government will provide to cover additional cost and lost income this is a fund to absorb and financial pain not met by central government-we believe they won't assist with Commercial income.

Levelling Up
To protect services against future funding.

Mendip Rough Sleeper Initiative
Support for rough sleeper initiatives in the community.

Joint Working with Parish councils
To facilitate better working and support for parishes, to help deliver local initiatives to support communities.

Special Expenses Rate (SER)
An additional charge to the taxpayer for play/cemeteries/closed churchyards.

Economic Development Technical Analysis
Strategic review analysis for Cabinet.

Environmental Impact Funding
Funding received from DCLG and earmarked for Environmental Impact Funding.

Local Community Initiatives
To facilitate better working and support for parishes, to help deliver local initiatives to support communities.

Multi-user Paths
Increase the number of cycle paths to encourage activity.

Glastonbury Town Funds
Glastonbury was 1 of a 101 towns who successfully bid and won grants to invest and improve, the £140k is a grant won to do feasibility work with the possibility of bidding into the millions for additional funds to assist with further redevelopment.

District Elections
District elections are every four years, contribution to these costs.

Page 373

5.13 UNUSABLE RESERVES

5.13.1 Revaluation Reserve

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

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

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

	31 March 2021 £000	**31 March 2022 £000**
Balance at 1 April	15,929	**16,514**
Upward revaluation of assets	931	**188**
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(224)	**(2,545)**
Surplus or (deficit) on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	707	**(2,357)**
Difference between fair value depreciation and historical cost depreciation	(121)	**(162)**
Accumulated gains on assets sold or scrapped	(1)	**(14)**
Amount written off to the Capital Adjustment Account	(122)	**(176)**
Balance as at 31 March	16,514	**13,981**

5.13.2 Capital Adjustment Account

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

The account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the council. The account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date the Revaluation Reserve was created to hold such gains.

Table on following page.

	31 March 2021 £000	**31 March 2022 £000**
Balance at 1 April	3,016	**(208)**
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
Charges for depreciation and impairment of non-current assets	(389)	**(496)**
Revaluation gains/(losses) on Property, Plant and Equipment	(15)	**469**
Amortisation of intangible assets	(68)	**(139)**
Revenue expenditure funded from capital under statute	(1,333)	**(1,253)**
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	(1)	**(127)**
	(1,806)	**(1,546)**
Adjusting amounts written out of the Revaluation Reserve	122	**176**
Net written out amount of the cost of non-current assets consumed in the year	(1,684)	**(1,370)**
Capital financing applied in the year:		
Use of the Capital Receipts Reserve to finance new capital expenditure	512	**761**
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	2,099	**2,519**
Application of grants to capital financing from the Capital Grants Unapplied Account	681	**847**
Provision for the financing of capital investment charged against the General Fund balance	440	**333**
Capital expenditure charged against the General Fund balance	25	**25**
	3,757	**4,485**
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	(5,297)	**(5)**
Balance as at 31 March	(208)	**2,902**

5.13.3 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.

	31 March 2021 £000	**31 March 2022 £000**
Balance at 1 April	5,963	**5,940**
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	28	**0**
Transfer (to)/from the Capital Receipts Reserve upon receipt of cash	(51)	**(57)**
Balance as at 31 March	5,940	**5,883**

5.13.4 Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements in accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed at the time the council makes the employer 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 between the benefits earned by past and current employees and the resources the council has set aside to meet them. The statutory arrangements will ensure funding will have been set aside by the time the benefits come to be paid.

	31 March 2021 £000	**31 March 2022 £000**
Balance at 1 April	(39,280)	**(48,372)**
Remeasurement of the net defined benefit liability or (asset)	(8,255)	**14,927**
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	(2,670)	**(4,011)**
Employer's pensions contributions and direct payments to pensioners payable in the year	1,833	**2,049**
Balance as at 31 March	(48,372)	**(35,407)**

5.13.5 Collection Fund Adjustment Account

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

	31 March 2021 £000	Council Tax 31 March 2022 £000	Non-domestic Rates 31 March 2022 £000	Total 31 March 2022 £000
Balance at 1 April	211	**305**	**(8,547)**	**(8,242)**
Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements	(8,453)	**274**	**4,587**	**4,861**
Balance as at 31 March	(8,242)	**579**	**(3,960)**	**(3,381)**

5.13.6 Accumulated Absences Account

Benefits payable during employment are short-term employee benefits due to be settled wholly within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render services to the council. Where wages/salaries, overtime, and any other allowances have not physically been paid for within the period but relate to the period then the period will be charged by the means of an accrual.

However these transactions must not have a financial impact upon the General Fund. To mitigate this accrual a corresponding entry will be made to the Accumulated Absences Account.

	31 March 2021 £000	**31 March 2022** **£000**
Balance at 1 April	(98)	**(254)**
Settlement or cancellation of accrual made at the end of the preceding year	98	**254**
Amounts accrued at the end of the current year	(254)	**(242)**
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	(156)	**12**
Balance as at 31 March	(254)	**(242)**

5.14 EVENTS AFTER THE BALANCE SHEET DATE

The unaudited statement of accounts was authorised for issue by the Section 151 officer as per the date in section 2 statement of responsibilities. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2022, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

The financial statements and notes have not been adjusted for the following events, which took place after 31 March 2022, as they provide information that is relevant to an understanding of the authority's financial position but do not relate to conditions at that date:

The council had no material items for consideration in 2021/22.

5.15 GRANT INCOME RECEIVED IN ADVANCE

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

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

The council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that require the monies or property to be returned to the giver.

Table on following page.

Grants Receipts in Advance (Capital Grants)	31 March 2021 £000	**31 March 2022 £000**
Glastonbury Town Centre	0	**(892)**
S106 - Land at Southfield Farm, Frome 2013/1635	(516)	**(515)**
S106: JS Bloor	(178)	**(178)**
Land at Whitewell House, Frome (2017/1353)	(100)	**(100)**
Grove Shute Farm, Tadhill (2015/0068)	(83)	**(83)**
Canynge Bicknell, Street	(55)	**(55)**
Land adjoining Tesco, West Street	(42)	**(42)**
S106: Flower and Hayes Developments	(35)	**(35)**
S106 Land South of Longmead Close	(27)	**(27)**
Bennett's Garden, Frome	(26)	**(26)**
S106 Greenacre Farm, Chilcompton	(23)	**(23)**
Shepton Grange	(20)	**(19)**
Warminster Rd, Beckington	(17)	**(17)**
Veale Wasbrough Vizards, Garston Rd	(13)	**(13)**
S106: Mendip Lodge Hotel	(8)	**(8)**
S106: 14 Hitchen Lane, Shepton Mallet	(7)	**(7)**
Alfred Crescent, Shepton Mallet	(5)	**(5)**
Wells Play Crowd Funding	(4)	**(4)**
Home Improvement Agency	(461)	**0**
	(1,620)	**(2,049)**

Grants Receipts in Advance (Revenue Grants)	31 March 2021 £000	**31 March 2022 £000**
COVID-19 Central Government Grants - Principal	(2,342)	**(890)**
Commuted: Sainsburys1 2004	(1)	**0**
Commuted: Sainsburys2 2004	(3)	**0**
S106 Sainsburys	(1)	**(1)**
Western Power - funding for EPC Certificates	0	**(10)**
	(2,347)	**(901)**

5.16 FINANCE 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.

Embedded leases within contracts - There is a requirement for the council to identify any instances where there are contracts in place to provide a service to the council and consider whether there are any embedded leases within these contracts.

Where such instances are identified the council is required to identify the element of the contractual payments made in respect of these assets and to account for these as a finance lease as above. One contractor who was contacted has not yet replied, however we consider any leases that could arise from this contract to be non-material.

5.16.1 Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception. The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the council are added to the carrying amount of the asset.

Lease payments are apportioned between:

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

The council has acquired one land asset and one desktop hardware equipment asset, under finance leases. The assets acquired under these leases are carried as Property, Plant and Equipment in the balance sheet at the following net amounts.

	31 March 2021 £000	**31 March 2022** **£000**
Community Asset	209	**209**
Vehicles, Plant and Equipment	15	**0**
	224	**209**

5.16.2 Council as Lessor

Finance leases – Where the council grants a finance lease over property, 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 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, matched by a lease asset in the Balance Sheet.
Lease rentals receivable are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease debtor, 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.
The council has entered into 2 major lease agreements with third parties; one is a car park at Chamberlain Street, Wells (Whiting Way) leased to Waitrose, and there are 5 leisure centre assets which have a combined lease to Fusion Lifestyles Ltd.

Both leases are for a fifty-year period and, due to their substance, have been assessed as finance leases. The accounting treatment applied to this involves the disposal of the asset on the balance sheet and the creation of a debtor equivalent to the principal amount of the finance lease outstanding at the balance sheet date. Future lease payments received in respect of this lease will be allocated between interest and principal outstanding with interest going to the Consolidated Income and Expenditure Statement and the principal offsetting the debtor.

The minimum lease payments comprise settlement of the long-term debtor for the interest in the assets acquired by the lessee and finance income that will be earned by the council in future years whilst the debtor remains outstanding. In the Fusion Lifestyle Ltd lease there are clauses that detail the requirement for the assets to be maintained in a good state of repair and decoration and at the end of the term the premises have to be returned to the council in the same condition as the leases require.

The gross investment is made up of the following amounts:

	31 March 2021 £000	**31 March 2022 £000**
Finance lease debtor / (creditor) (net present value of minimum lease payments);		
Current	57	**59**
Non-current	5,883	**5,824**
Unearned finance income	6,064	**5,830**
Gross investment in the lease	12,004	**11,713**

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 £000	**31 March 2022 £000**	31 March 2021 £000	**31 March 2022 £000**
Not later than one year	292	**292**	292	**292**
Later than one year but not later than five years	1,167	**1,167**	1,167	**1,167**
Later than five years	10,545	**10,254**	10,545	**10,254**
	12,004	**11,713**	12,004	**11,713**

5.17 CAPITAL EXPENDITURE AND CAPITAL FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases) together with the resources 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.

Revenue Expenditure Funded by Capital Under Statute (REFCUS) - These amounts represent expenditure on capital grants and other payments which do not result in an asset belonging to the council. Under the government's capital controls this expenditure would be treated as revenue expenditure. These amounts should be written off over a period consistent with the consumption of the economic benefits controlled by the council.

As the council does not control the economic benefit arising from this particular expenditure, 100% of the expenditure is written off to revenue in the year it is incurred, leaving no balance at the end of the year. The expenditure (net of grants received) is written off to the Capital Adjustment Account via the Movement in Reserves Statement.

Table on following page.

	2020/21 £000	**2021/22 £000**
Opening Capital Financing Requirement	59,381	**59,329**
Capital Investment		
Property, Plant and Equipment	701	**452**
Investment Properties	1,396	**2,271**
Intangible Assets	275	**253**
Revenue Expenditure Funded from Capital under Statute	1,333	**1,253**
Sources of Finance		
Capital Receipts	(512)	**(761)**
Government Grants and Other Contributions	(2,780)	**(3,367)**
Sums set aside from revenue		
Direct Revenue Contributions	(25)	**(25)**
Minimum/Voluntary Revenue Provision	(440)	**(333)**
Closing Capital Financing Requirement	59,329	**59,072**
Increase/(decrease) in underlying need to borrow (unsupported by Government financial assistance)	(52)	**(257)**
Increase or (decrease) in Capital Financing Requirement	(52)	**(257)**

5.18 DEFINED BENEFIT PENSION SCHEMES

5.18.1 Participation in Pension Schemes

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

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

The council participates in one post-employment scheme:

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

- The liabilities of the pension scheme attributable to the council are included in the Balance Sheet on an actuarial basis using the projected unit method, i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employees turnover rates etc. and projections of earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on high quality corporate bond (gross redemption yield on the iboxx Sterling Corporates Index, AA over 15 years).
- A significant proportion of the assets of the Scheme are invested in equities. The assets of the 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 pensions liability is analysed into seven components:
    - Service cost comprising:
        - current service cost - the increase in liabilities as a result of years of service earned for the year - allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked.
        - past service cost - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years - debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-distributed costs.
    - Net interest on the net defined benefit liability/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.
    - Re-measurements comprising:
        - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability - charged to the Pension Reserve as Other Comprehensive Income and Expenditure.
        - actuarial gains and losses - changes in the net pension's 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 Pension Reserve as Other Comprehensive Income and Expenditure.
    - Contributions paid to the pension fund - cash paid as the employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

The pension scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the pensions committee of SCC. Policy is determined in accordance with the Pensions Fund Regulations. The investment managers of the fund are appointed by the committee. The principal risks to the council of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund Account, the amounts required by statute as described in the accounting policies note.

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 in the year, not the amount calculated in accordance with the relevant standards. This means that in the Movement in Reserve

Statement there are appropriations to or from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits that are earned by employees.

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

5.18.2 Transactions Relating to Post-employment Benefits

We recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement.

Table on following page.

*The Current Service Cost include Admin Expense

	Local Government Pension Scheme	
	2020/21 £000	**2021/22 £000**
Comprehensive Income and Expenditure Statement		
Cost of Services:		
Service cost comprising:		
- Current Service Cost*	1,762	**3,064**
- Past Service Cost	6	**0**
Financing and Investing Income and Expenditure:		
- Net interest expense	902	**947**
Total Post-employment Benefits Charged to the Surplus or Deficit on the Provision of Services	2,670	**4,011**
Remeasurement of the net defined benefit liability comprising:		
- Return on plan assets (excluding the amount included in the net interest expense)	(9,431)	**(2,839)**
- Actuarial (gains) and losses arising on changes in demographic assumptions	(838)	**(6,930)**
- Actuarial (gains) and losses arising on changes in financial assumptions	19,565	**(6,052)**
- Actuarial experience (gains) and losses	(1,041)	**772**
- Other Actuarial (gains) and losses on assets	0	**122**
Total Post-employment Benefit Charged to the Comprehensive Income and Expenditure Statement	10,925	**(10,916)**

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		Discretionary Benefits Arrangements	
	2020/21 £000	**2021/22 £000**	2020/21 £000	**2021/22 £000**
Movement in Reserves Statement				
reversal of net charges made to the Surplus or Deficit on the Provision of Services for post- employment benefits in accordance with the Code	(2,670)	**(4,011)**		
Actual amount charged against the General Fund Balance for pensions in the year:				
Employer's contributions to the scheme	1,680	**1,895**		
Retirement benefits payable to pensioners			153	**153**

5.18.3 Pension Assets and Liabilities Recognised in the Balance Sheet
The amount included in the balance sheet arising from the council's obligation in respect of its defined benefit plan is as follows:

	Local Government Pension Scheme	
	2020/21 £000	**2021/22 £000**
Present value of the defined benefit obligation	94,324	**84,953**
Fair value of plan assets	(45,946)	**(49,539)**
Net liability arising from defined benefit obligation	48,378	**35,414**

5.18.4 Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets

	Local Government Pension Scheme	
	2020/21	**2021/22**
	£000	**£000**
Opening fair value of scheme assets	35,852	**45,946**
Interest income	841	**919**
Remeasurement gain/(loss):		
- The return on plan assets, excluding the amount in the net interest expense	9,431	**2,839**
- other actuarial gain/(loss)	0	**(122)**
- administration expense	(19)	**(24)**
Contributions from employer	1,836	**2,048**
Contributions from employees into the scheme	349	**390**
Benefits paid	(2,344)	**(2,457)**
Closing fair value of scheme assets	45,946	**49,539**

5.18.5 Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

	Local Government Pension Scheme	
	2020/21	**2020/22**
	£000	**£000**
Opening balance at 1 April	75,141	**94,324**
Current service cost	1,743	**3,040**
Interest cost	1,743	**1,866**
Contributions from scheme participants	349	**390**
Remeasurement (gains) and losses:		
- Actuarial (gains)/losses arising from changes in demographic assumptions	(838)	**(6,930)**
- Actuarial (gains)/losses arising from changes in financial assumptions	19,565	**(6,052)**
- Actuarial experience (gains)/losses calculated on defined benefit obligation	(1,041)	**772**
Past service costs	6	**0**
Benefits paid	(2,191)	**(2,305)**
Unfunded pension payments	(153)	**(152)**
Closing balance at 31 March	94,324	**84,953**

5.18.6 Local Government Pension Scheme Assets

Local Government Pension Scheme Assets comprised:

The council's share of the total fund is approximately 2%	2020/21 £000	2020/21 %	**2021/22 £000**	**2021/22 %**
Equity investments	33,056	72	**35,891**	**72**
Cash and cash equivalents	2,641	6	**2,425**	**5**
Gilts (Public Sector)	2,641	6	**2,494**	**5**
Corporate bonds	4,453	10	**4,783**	**10**
UK Property	3,176	7	**3,970**	**8**
Total	45,967	100	**49,563**	**100**

Please note the individual percentages shown are to the nearest percentage point for each asset class and may not sum to 100%. The final asset allocation of the Fund assets as at 31 March 2022 is likely to be different from that shown due to estimation techniques.

Total of scheme assets can vary from the fair value of scheme assets in note 5.18.4 due to accruals and other timing differences.

The following table provides a more detailed breakdown of the council's assets as at 31 March 2022:

Employer asset share - bid value	2021/22 £000	%
Equities:		
UK Equities:		
- Quoted	0	0.0%
- Unquoted	8,921	18.0%
Overseas Equities:		
- Quoted	0	0.0%
- Unquoted	25,278	51.0%
Gilts:		
- Fixed interest (UK)	991	2.0%
Index linked:		
- UK	1,487	3.0%
- Overseas	0	0.0%
Bonds:		
- UK	3,469	7.0%
- Overseas	1,487	3.0%
Property	3,965	8.0%
Private Equity	1,487	3.0%
Cash	2,478	5.0%
Total Portfolio	**49,563**	**100%**

Total portfolio can vary from the fair value of scheme assets in note 5.18.4 due to accruals and other timing differences.

5.18.7 Basis for Estimating Assets and Liabilities

To assess the value of the Employer's liabilities at 31 March 2022, we have rolled forward the value of the Employer's liabilities calculated for the funding valuation as at 31 March 2021, using financial assumptions that comply with IAS19. It is not possible to assess the accuracy of the estimated value of liabilities as at 31 March 2022 without completing a full valuation. However, we are satisfied the approach of rolling forward the previous valuation data to 31 March 2022 should not introduce any material distortions in the results provided the actual experience of the Employer and the Fund has been broadly in line with the underlying assumptions, and the structure of the liabilities is substantially the same as at the latest formal valuation. From the information we have received there appears to be no evidence that this approach is inappropriate.

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

	Local Government Pension Scheme	
	2020/21	**2021/22**
Mortality assumptions:		
Longevity at 65 for current pensioners:		
- men	23.1	**21.3**
- women	24.6	**23.2**
Longevity at 65 for future pensioners:		
- men	24.4	**22.6**
- women	26.0	**24.6**
CPI increases	2.8%	**3.2%**
Rate of increase in salaries	3.8%	**2.0%**
Rate of increase in pensions	2.8%	**3.2%**
Rate of discounting scheme liabilities	2.0%	**2.6%**

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume life expectancy increases or decreases for men and women. In practice, this is unlikely to occur and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

5.18.8 Impact on the council’s Cash Flows

The objectives of the scheme are to keep employers’ contributions at as constant a rate as possible. The council has anticipated to pay £1.904 million in expected contributions to the scheme in 2022/23. The weighted average duration of the defined benefit obligation for scheme members is 20 years, 2021/22 (20 years 2020/21).

	Increase in Assumption £000	Decrease in Assumption £000
Assumption adjustment:		
Longevity - increase/decrease by 1 year	4,578	(4,323)
Salaries - increase/decrease by 0.1%	104	(103)
Pensions - increase/decrease by 0.1%	1,563	(1,518)
Discount rate (scheme liabilities) - increase/decrease by 0.1%	(1,629)	1,679

6.01 OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

	2020/21 £000	**2021/22 £000**
Interest received	337	**365**
Interest paid	(1,313)	**(1,326)**

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

	2020/21 £000	**2021/22 £000**
Depreciation	457	**635**
Impairment	15	**(469)**
Changes in fair value of investment properties	5,297	**5**
Net book value of disposed assets	(27)	**127**
Debtor accruals	(999)	**1,411**
Creditor accruals	9,413	**(4,047)**
Grants received in advance - revenue	2,341	**(1,447)**
Provisions	427	**429**
Pension	834	**1,963**
	17,758	**(1,393)**

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

	2020/21 £000	**2021/22** **£000**
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(461)	**(705)**
Any other items for which the cash effects are investing or financing cash flows	(3,143)	**(3,562)**
	(3,604)	**(4,267)**

6.02 INVESTING ACTIVITIES

	2020/21 £000	**2021/22** **£000**
Purchase of property, plant and equipment, investment property and intangible assets	(2,036)	**(3,474)**
Purchase of short-term investments	(12,917)	**(7,073)**
Other payments for investing activities	(74)	**(6)**
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	187	**101**
Other receipts from investing activities	2,935	**4,061**
	(11,905)	**(6,391)**

Page 401

6.03 FINANCING ACTIVITIES

	2020/21 £000	**2021/22** **£000**
Other receipts from financing activities - Preceptor cash	0	**8,885**
Other receipts from financing activities - Grants central government cash	3,704	**5,109**
Repayments of short term borrowing	(10)	**(28)**
Other payments for financing activities - Preceptor cash	(14,939)	**0**
	(11,245)	**13,966**

6.04 RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

2021/22	**1 April 2021** **£000**	**Financing Cash Flows** **£000**	**Other Non-Cash Changes** **£000**	**31 March 2022** **£000**
Long term borrowing	**62,856**	**0**	**(17)**	**62,839**
Short-term borrowing	**62**	**(28)**	**17**	**51**
Other (payments)/receipts for financing activities	**(8,871)**	**13,994**	**0**	**5,123**
	54,047	**13,966**	**0**	**68,013**

6 CASH FLOW - NOTES

2020/21	1 April 2020 £000	Financing Cash Flows £000	Other Non-Cash Changes £000	31 March 2021 £000
Long term borrowing	62,876	0	(20)	62,856
Short-term borrowing	54	(10)	18	62
Other (payments)/receipts for financing activities	2,364	(11,235)	0	(8,871)
	65,294	(11,245)	(2)	54,047

7.01 ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the Code) requires changes in accounting policy to be applied retrospectively unless alternative transitional arrangements are specified in the Code. The Code requires an authority to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted by the Code for the relevant financial year.

- Annual Improvements to IFRS Standards 2018–2020. 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) – one of a small number of IFRSs that are only expected to apply to local authorities in limited circumstances
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16.)

It is anticipated the above amendments will not have a material impact on the information provided in the statement of accounts.

7.02 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out within the notes in the Statement of Accounts the council has had to make certain judgements about complex transactions or those involving uncertainty about future events.

The critical judgements made in the Statement of Accounts are:

Future Funding
The 2016 funding settlement increased certainty with the offer of a four-year settlement to any council that wished to take it up, alongside indicative allocations for each year of the Spending Review period. At this point, it was expected the government would implement the outcomes of the Fair Funding Review, reset the Business Rates baseline and also extend Business Rates Retention to a 75% scheme. The anticipated effects of these would have been detrimental to the future funding for District Councils. All of these were delayed due to the Pandemic and were not implemented for the single year settlement for 2021/22. It now appears increasingly likely they will also not be implemented for 2022/23. However, this does remain a risk and reserves are being held accordingly to protect the medium term financial position of the council. The next Spending Review will be undertaken by the Chancellor of the Exchequer in autumn 2021 and the effect of this on local government funding is yet to be determined.

Leases
The council classifies the leases it holds, both as a lessee and lessor, as either operating or finance leases. Under International Financial Reporting Standards the council is deemed to control assets that fall within contractual and other arrangements which involve the provision of a service using specific assets and which therefore are considered to contain a lease. The appropriate accounting policy for each lease has been applied to these arrangements (where they have been identified) and as a result additional assets are recognised as Property, Plant and Equipment in the council's Balance Sheet.

Group Accounts
The authority has reviewed its relationship with other entities and concludes Shape Housing Ltd falls under the group accounts criteria. The company became operational during 2017/18, but due to materiality has not been consolidated.

7.03 ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

Item	Uncertainties	Effect if actual results differ from assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the council may be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. However the council's assets are subject to a periodic revaluation and an annual impairment review and any changes in valuation are accounted for in the year that they occurred.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £23,464 for every year that useful lives had to be reduced. If the actual valuation differs from the assumptions made then these will be adjusted when the asset is revalued.

Item	Uncertainties	Effect if actual results differ from assumptions
Fair Value Measurement of Investment Properties	Investment properties are revalued every year and, therefore, takes into account the current market conditions.	A 1% movement in the valuation of investment properties would equate to a movement of £543,500

Item	Uncertainties	Effect if actual results differ from assumptions
Pension Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the council with expert advice about the assumptions to be applied. When the LGPS benefit structure was reformed in 2014, transitional protections were applied to certain older members close to normal retirement age. The benefits accrued from 1 April 2014 by these members are subject to an 'underpin' which means that they cannot be lower than what they would have received under the previous benefit structure. The underpin ensures that these members do not lose out from the introduction of the new scheme, by effectively giving them the better of the benefits from the old and new schemes.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £7,686 million. However, the assumptions interact in complex ways. During 2021/22, the council's actuaries advised that the net pension liability had increased by £772,000 as a result of estimates being corrected as a result of experience and decreased by £15,699,000 attributable to the updating of assumptions.
Provisions	The council has made provision in relation to National Non-Domestic Rate Appeals. These provisions are based on an estimation of any future liability and the likelihood that these costs will be incurred.	If the estimates used in the calculation of the provision prove to be inaccurate then there will be further income or expenditure incurred by the General Fund.
Arrears	At 31 March 2022, the council had a sundry (trade) debtor balance of £1,313k. A review of significant balances suggested that an impairment of doubtful debts of 18.83% (£247k) was appropriate. It is not certain that this impairment allowance would be sufficient as the council cannot assess with certainty which debts will be collected or not. 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 hence their ability to settle their debts.	If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £247k to set aside as an allowance. The council has earmarked £188k to help tackle the impact of COVID-19, in part it would be used to offset any impairments above which have already been allowed for.

7.04 RELATED PARTY TRANSACTIONS

The council is required to disclose material transactions with related parties, bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council. 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 has effective control over the general operations of the council. It is responsible for providing the statutory framework within which the council operates, provides a significant proportion of its funding in the form of grants (note 3.12 and 5.15)

Elected Members of the council have direct control over the council's financial and operating policies. Members are required to observe the Code of Conduct for Councillors, register financial interests in the council's register (maintained under section 81(1) of the Local Government Act 2000) and register the receipt of any gifts/hospitality. There were no material receipts of any gift or hospitality to disclose for 2021/22.

As of the date of the council's Chief Finance Officer signing the accounts, there was 12 returns from members outstanding. From those who had returned their declaration there were none that were considered to be material to disclose.

Officers are required to observe the Code of Conduct for Officers and register the receipt of any gifts/hospitality. The council had no material related party transactions with officers during 2021/22.

Related party transactions with the precepting bodies and the pension fund are disclosed in Note 5.18 Defined Benefit Pension Scheme within these accounts. The council had no significant interest in companies.

Entities Controlled or Significant influenced by the Authority

- Shape Housing Ltd
- Three members are appointed to Shape Housing Ltd Board.

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

Related Party Transactions	31 March 2021 £000	**31 March 2022 £000**
Amounts due to UK Government	(16,073)	**(18,654)**
Amounts due to Somerset County Council	(1,910)	**(2,598)**
Amounts due from UK Government	11,439	**4,643**
Amounts due from Somerset County Council	2,818	**964**
Amounts due from Shape Housing Ltd	283	**0**

The council is a member of South West Audit Partnership Limited, a company limited by guarantee which provides internal audit services to its thirteen local authority members (including this council).

The Somerset Waste Partnership (SWP) provides Waste and Recycling services to the local authorities in the shire county of Somerset. SWP is an arm of the Somerset Waste Board (SWB). Mendip District Council holds 2 elected member seats on the SWB but has no element of individual control or power of veto.

7.05 CONTINGENT ASSET AND LIABILITIES

Contingent assets and liabilities are not included within the Comprehensive Income and Expenditure Statement or Balance Sheet, but are disclosed by way of a note to the accounts where a receipt or some other economic benefit is probable (contingent asset), or where there is a possible obligation that may require payment or other transfer of economic funds (contingent liability).
The council has no contingent assets and liabilities to report.

7.06 NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

7.06.1 Nature and Extent of Risk arising from Financial Instruments

The council's activities expose it to a variety of financial risks, the key risks are:

- Credit risk – the possibility that other parties might fail to pay amounts due to the council.
- Liquidity risk – the possibility that the council might not have funds available to meet its commitments to make payments.
- Market risk – the possibility that financial loss might arise for the council as a result of changes in such measures as interest rates and stock market movements.

The authority'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 a central treasury team, under policies approved by the council in the annual treasury management strategy. The council provides written principles for overall risk management, as well as written policies covering specific areas such as interest rate risk, credit risk and the investment of surplus cash.

7.06.2 Credit Risk

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

The risk is minimised through the Annual Investment Strategy, which requires deposits are not made with financial institutions unless they meet identified minimum credit criteria, as laid down by Fitch, Moody's and Standard & Poor's Rating Services. The Annual Investment Strategy also imposes a maximum sum and time to be invested with a financial institution located within each category

The council's treasury management advisors, Link Asset Services, give a credit rating based on the latest market information.

This council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- Credit watches and credit outlooks from credit rating agencies.
- CDS spreads to give early warning of likely changes in credit ratings.
- Sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the council to determine the suggested duration for investments. The council will therefore use counterparties within the following durational bands:

- Yellow 5 years *
- Dark pink 5 years for Enhanced Money Market Funds (EMMFs) with a credit score of 1.25
- Light pink 5 years for Enhanced Money Market Funds (EMMFs) with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used
- Money Market Funds with AAA rating
- UK Government Gilts with AA rating
- A maximum of £5m to be invested with any single institution.

The council's maximum exposure to credit risk in relation to its investments in banks and building societies of £5m (extended to £10m for Mendip's own bank and also MMFs to allow for flux in grants/income and payments to support customers) cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the councils deposits, but there was no evidence at 31 March 2022 this was likely to crystallise.

The table below summarises the nominal value of the council's investment portfolio at 31 March 2022 with each level of counterparty. All investments were made in line with the council's approved credit rating criteria at the time of placing the investment and the council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds.

Credit Risk – Cash & Cash Equivalents & Investments

	31 March 2021 £000	**31 March 2022 £000**
AA rated counterparties	4,250	**8,000**
AA- rated counterparties	3,000	**0**
A+ rated counterparties	16,202	**25,780**
	23,452	**33,780**

The council does not generally allow credit for customers. As per the Code of Practice requirements, the disclosure below includes details only of debtors that have arisen as a result of trading activities. Balances and transactions arising from statutory functions (i.e. council tax and non-domestic rate payments) are excluded from this disclosure note as they have not arisen from contractual trading activities.
The past due but not impaired amount can be analysed by age as follows:

Credit Risk - Debtors

	31 March 2021 £000	**31 March 2022 £000**
Less than three months	701	**165**
Three to six months	475	**75**
Six months to one year	172	**48**
More than one year	82	**353**
	1,430	**641**

7.06.3 Liquidity Risk

The council has a comprehensive cash flow management system that seeks to ensure cash is available as needed. If unexpected movements happen, the council has ready access to borrowings from the Money Markets and the Public Works Loans Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The majority of borrowing is with PWLB (£62.793m fixed rate) which is on a maturity basis. This is a treasury backed institution and therefore has very low risk attached to it.

The maturity analysis of financial liabilities is as follows:

	31 March 2021 £000	**31 March 2022** **£000**
Less than one year	62	**51**
Between one and two years	17	**17**
Between two and five years	39	**29**
Between five and ten years	5,007	**5,000**
Between ten and twenty years	16,900	**16,900**
More than twenty years	40,893	**40,893**
	62,918	**62,890**

Page 413

7.06.4 Market risk

The council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the council. For instance, a rise in interest rates would have the following effects:

- Investments at variable rates – the interest income credited to the Surplus or Deficit on the Provision of Services would rise
- Investments at fixed rates – the fair value of the assets would fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund balance. Movements in the fair value of fixed rate investments have a quoted marketplace will be reflected in Other Comprehensive Income and Expenditure. The council did not hold any such investments at 31 March 2022.

The council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the council's prudential and treasury indicators and it's expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance, during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long-term returns, similarly the drawing of longer-term fixed rates borrowing would be postponed. The risk of interest rate loss is partially mitigated by Government grant payable on financing costs.

As at 31 March 2022 there was no material exposure to changes in interest rates that would suggest the possibility that financial loss might arise for the council. The Bank of England base rate dropped to a record low of 0.10% as at the 19 March 2020 and raised three times during 2021/22 financial year reaching 0.75% in March 2022. Therefore, had the interest rate been 1% higher (or conversely 1% lower), there would be no material impact on other financial statements with these accounts.

7.07 FURTHER ACCOUNTING POLICIES

The majority of the accounting policies which the council adopts have been put before their respective statements and notes to aid the readability and understanding of this document.

However there are a few which cover the accounts as a whole and don't necessarily relate to just one area, these are detailed below.

General
The Statement of Accounts summarises the council's transactions for the 2021/22 financial year and its position at the year-end on 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 primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 ('the Code'), supported by International Financial Reporting Standards (IFRS).

These accounts have been prepared on a going concern basis which means the functions of the council will continue in operational existence for the foreseeable future.

Accruals
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 sale of goods is recognised when the council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the council.
- Revenue from provision of services is recognised when the council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the council, in accordance with any performance obligations within contracts.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption they are carried as inventories on the balance sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when the payments are made.

Disposal of Assets
Where an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet 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.

Exceptional Items
When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the Notes to the Accounts.

Investments
The council accounts for investments in accordance with the Treasury Management Strategy, which is set annually. The council's investment priorities are:

- the security of capital and
- the liquidity of its investments
- the yield on maturity of the investment

Minimum revenue provision (MRP)
Regulations 27 and 28 in the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 requires the council to make an annual charge to revenue to contribute towards the reduction in its overall borrowing requirement - known as a Minimum Revenue Provision.

The council has adopted the asset life method of calculating MRP where the charge is spread in equal annual instalments over the life of each asset that creates a borrowing requirement. MRP commences in the financial year following either the year in which the expenditure was incurred or the year when the asset becomes operational. This excludes all investment properties as these properties will be financed once the property is sold and if the value of the property reduces below original cost a reserve will be created over the remaining life of the asset.

Any interest costs to the Comprehensive Income and Expenditure Statement in relation to finance leases will also be mitigated by a corresponding MRP adjustment.

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

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 area 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 the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always applied.

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

Revenue recognition
Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net worth. Revenue is recognised when it is probable that future economic benefits will flow to the council and these benefits can be measured reliably.

IFRS 15 (Revenue from Contracts with Customers) is applied in accounting for revenue arising from the following transactions and events:

- the sale of goods
- the rendering of services
- interest, royalties and dividends.
- non-exchange transactions (i.e. council tax)
- where previously a liability had been recognised (i.e. creditor) on satisfying the revenue recognition criteria

The amount of revenue arising on a transaction is usually determined by agreement between the council and the buyer or user of the asset. It is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the council.

IFRS15 has no impact on Mendip District Council's accounts

VAT
Value Added Tax is excluded from both revenue and capital in terms of both income and expenditure except where the council is not able to recover VAT on expenditure. HM Revenue and Customs allow Local councils to recover the majority of VAT incurred.

7.08 GOING CONCERN

Section 1 – Underlying principle

The concept of a *'going concern'* assumes that an authority, its functions and services will continue in operational existence for the foreseeable future. This assumption underpins the accounts drawn up under the Local Authority Code of Accounting Practice and is made because local authorities carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue-raising powers arising only at the discretion of central government).

If an authority were in financial difficulty, the prospects are that alternative arrangements would be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year.

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

In previous assessments of the 'Going Concern' status of the council, reference has been made to the significant reduction in funding for local government in recent years and the potential threat this poses to the ongoing viability of councils as a consequence. With the impact the COVID-19 Pandemic has had on local authorities including Mendip, particularly the need to incur additional expenditure in response to the impact of the virus along with shortfalls in income, greater emphasis is now placed on local authorities undertaking an assessment of the 'going concern' basis on which they prepare their financial statements. In response, this report sets out the position at Mendip.

As with all principal local authorities, the council is required to compile its Statement of Accounts in accordance with the Code of Practice on Local Authority Accounting for 2021/22 (hereafter referred to as the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA). In accordance with the Code, the council's Statement of Accounts is prepared assuming the council will continue to operate in the foreseeable future and it is able to do so within the current and anticipated resources available. By this, it is meant the council will realise its assets and settle its obligations in the normal course of business.

The Code guidance for 2021/22 remains unchanged from previous years and contains the following provisions in respect of the concept of a going concern:

The requirement to use the going concern basis of accounting means authorities do not have to apply paragraph 25 of International Accounting Standard 1 Presentation of Financial Statements mandating management to make an assessment of the authority's ability to continue as a going concern. That said, in view of the concerns generally regarding the financial pressures facing local government and the impact of COVID-19, the report author has undertaken such an assessment for the purposes of the 2021/22 Statement of Accounts only.

The main factors which underpin this assessment are outlined below and include the following:-

- The council's current financial position;
- The impact of COVID-19 on the council;
- The council's projected financial position;
- Risk Assessment;
- The council's governance arrangements;
- The regulatory and control environment applicable to the council as a local authority;
- Impact of Local Government Re-organisation in Somerset which will see a new Unitary authority formed on 1 April 2023.

Section 2 – Current financial position

The funding of Mendip council has changed over recent years with no revenue support grant received from government since 2018-19. Funding for services is now almost entirely met from Council Tax, business rates and locally raised income. Specific grant funding is received in a number of areas such as to cover benefit payments made and for a number of grant funded initiatives such as rough-sleepers and homelessness prevention.

When the budget was set for 2021/22, the intention was to achieve a break-even position. A prudent set of assumptions were used, as the on-going financial impact of the pandemic was uncertain at that point. This included reductions in both the anticipated income from Commercial Investments and also from the Business Rates Pooling arrangements.

The outturn position has improved from these assumptions. The Commercial Income has held up extremely well, and was £211k in excess of the budget set. Business Rates income was also good, with an additional £426k received compared to the budget. The reported outturn, is an underspend of £720k.

The additional government support received for COVID-19 income and expenditure was sufficient in 2021/22 to cover the additional expenditure and lost income. This was a significant difference to the previous financial year where government support fell well short of the costs and losses incurred.

The level of general balances will therefore increase by £720k to £2,404k. The level of the MTFP reserve was reduced during the year as it was agreed £1.2m would be set aside to cover the council's share of LGR costs. A sum of £112k of this was used in 2021/22 and the remainder is anticipated to be spent on both central transition costs managed by Somerset County Council and Mendip's additional staffing costs.

Earmarked reserves have reduced during the past year. The major factor was the use of Section 31 grants received as compensation for additional business rate reliefs granted nationally during the pandemic. These feed through the accounts a year after the grants are received. A similar situation will also occur during 2022/23 with the remaining s31 grant balance. Additionally, around £700k was spent on Corporate Priorities during the year.

	As at 31 March 2021 £000	**As at 31 March 2022 £000**
General Balances	**1,684**	**2,415**
MTFP Reserve	5,479	3,979
LGR Reserve	0	1,088
COVID-19 Reserve	779	188
5 Council Contract Reserve	0	289
Collection Fund (COVID-19 s31)*	8,523	4,447
Earmarked Reserves	5,427	4,841
Total Earmarked	**20,208 (11,685 excl s31 Grant)**	**14,832 (10,756 excl s31 Grant)**
TOTAL	**21,892**	**17,247**

* S31 grants for Business rates reliefs granted in 2020/21 which credited the collection fund in 2021/22. Similar arrangement are in place for 2022/23.

<u>Cash position</u>

The council had a cash balance of £13.8m at the end of 2021/22, up from £10.5m in 2020/21. Most of this relates to COVID-19 business rate reliefs applied in 2021/22 and COVID-19 grant balances which were returned to government where unspent.

An updated cash-flow projection was prepared extending to the end of 2022/23, when the authority would cease as an entity. As at year end 2022/23 Mendip DC had a cash balance of £26.8m, demonstrating that the authority had no cash-flow difficulties. The significant increase is due to short term investments being moved to liquid assets in preparation for the transfer to the new Somerset Council.

The cash balance at 31/3/2023 were £26.7m. This balance was transferred to the new Somerset Council on 1 April 2023 and these will form part of its opening balance sheet. The council is of course also able to borrow short term for revenue purposes if ever needed.

Capital / Assets
Capital expenditure during the year was limited to £4.2m. This was mainly funded from external grants and no further external borrowing was undertaken. No new commercial investments were made during the year, due to the impact of the pandemic on the market and also awaiting the outcome of the CIPFA consultation on changes to the Prudential Code.

Asset values of the existing commercial investments fell by £3.2m during the year. However, this is expected to be a short-term issue due to the pandemic and these assets are being held to generate long-term income. A change in accounting policy made during 2020/21 provides for minimum revenue provision to be applied to these commercial investments. Additionally, a voluntary provision was also made in relation to the period prior to the change in policy.

Section 3 – Impact of COVID-19

The continuing impact of the COVID-19 pandemic was difficult to predict for 2021/22.

Income was affected during the first quarter of the year, due to the final lockdown period. Shortfalls were seen on various income streams, but particularly around car parking and markets. Around 70% of these losses were re-imbursed by the government.

General COVID-19 grant of £563k was provided by the government. This covered the majority of additional expenditure, particularly around works, infection control and the waste partnership. Other grants were also received to cover grant admin costs and Contain Outbreak funding of £145k.

Commercial income losses were very minimal, contained to just one of the smaller council arrangements. The impact on council tax and business rates was much less than 2020/21 but collection rates are still not back to previous historic levels.

A total of £14m of business grant funding was also provided to the council to pass onto local businesses during the year. This was in addition to the £48m of grants provided in 2020/21. This was passed to businesses where it was possible to meet the criteria for each grant stream. This has now been subject to audit and remaining balances have been returned to government.

Additionally an extra £11m of business rate reliefs were also provided by the council, fully funded by the Government. Our share of these (£4.5m) will filter through the business rates collection fund and show as an earmarked reserve at the end of 2021/22. This will reverse itself out in 2022/23.

Section 4 - The council's projected financial position

There has been significant uncertainty over when / if the planned changes to Local Government Funding will take place. These include the implementation of the Fair Funding Review, reset of the Business Rates baseline and implementation of further Business Rate Retention. These potential changes have been pushed back further due to the pandemic. These will now not occur during the lifetime of this Council and the impact on the new unitary will be fairly neutral compared to the potential impact on the Somerset Districts.

With the ongoing uncertainty, an MTFP reserve was established during 2020/21 to cover any potential budget gap in the next three years to the end of 2023/24. Of this, £1.2m was set aside during 2021/22 to meet Mendip's share of the cost of transition to the new unitary council. This reserve still stands at just under £4m at the end of 2021/22 which will pass to the new Council, helping to cushion any future funding changes.

The current expectation is that the implementation of any major changes will be delayed further and may not now take place until 2024/25. When implemented, they will also be accompanied by smoothing to spread any impact across a number of years.

The general balances have increased due to the £720k underspend and are projected to now be £2.365m, well above the s151 officer's minimum level of £1.5 million. The council holds sufficient earmarked reserves to remain a going concern.

2022/23 Financial Year

The council set a balanced budget for 2022/23, without recourse to the MTFP reserve. The only call on this will be to meet the difference between the deficit on the business rates collection fund and the surplus on the council tax collection fund, a net total of £342k.

The council still has a sum of £188k set aside to deal with any on-going income losses arising from COVID-19. Income in the first quarter appears to be in line with the budget, so this may not be required.

Service expenditure appears to be in line with the budget set, allowing for some additional staffing costs incurred due to the LGR transition process which will be met from the LGR reserve.

There are some risks arising from inflation during 2022/23. Most of this will not affect the 2022/23 financial year due to our contractual arrangements. The main area of extra cost is likely to arise from the pay award. This is not yet agreed, but other public sector areas are seeing pay rises of 4 to 5 per cent, compared to our budgeted sum of 2%. Every additional percentage will cost the council around £90k. This will be easily manageable from within the reserves held, but will increase the financial pressure on the new council.

Section 5 – Risk Assessment

A detailed risk analysis was undertaken in setting the 2022/23 budget. This can be found within the Section 25 report (appendix F of Item 9 presented to Full Council on 21 February 2022). An extract is shown below, together with the mitigations in place to manage them and an update on the current position.

Risk Areas in 2022/23	Mitigations	March 23 Update
Business Rates – impact from COVID-19	Additional support was granted to the Retail, Hospitality and Leisure sectors in the Chancellor's Autumn Statement. This will now provide 50% support for 2022/23. Whilst this is lower than the previous year, this will significantly lessen the potential risk.	*Government agreed 50% support for 2022/23. No update*
Business Rates Pooling income	Agreement for the pool to continue in 2022/23 was secured on December 2021 and confirmed to DLUCH. The actual level of income will be dependent upon the on-going impact of the pandemic on the economy. The potential gain for 2022/23 has been scaled back by £250k to mitigate the risk.	*Business Pool continued to make a gain in 2021/2022 & 2022/2023*
Pay Award	The pay award for 2021/22 has still not been agreed. The budget set for 2022/23 assumes this will be settled at 2%, with 2% also included for each subsequent year. With inflation running high, this could be insufficient. The same approach has been followed by the other Somerset Districts to ensure the same starting point for the new Unitary.	*Pay award for 2021/22 was settled at 1.75%. This leaves the 2022/23 budget in hand but pay award for 2022/23 not settled and could exceed 2%.*

Commercial Income – potential for voids / non-payment	Potential income budget was reduced by £250k in 2021/22. This has not been required. For 2022/23, the income budget has been increased by £200k which provides less cover. However, a number of rent reviews are also due which are likely to increase income. The council does hold a £500k reserve to cover income losses due to the pandemic but this will be partly used in 2021/22. The remainder will provide protection in 2022/23.	*No current issues.* *First rent review has produced significant increase.*
Sales, Fees and Charges Key areas of risk – Car parking, leisure, markets, licencing, planning	Government re-imbursement scheme ceased on 30 June 2021. Most areas of income have returned to normal levels in 2021/22, with planning and licencing above targets. Leisure debts are now being repaid on a monthly basis. £500k reserve is in place to fund Council's share of any income shortfalls, although this will be partly used in 2021/22.	*Most income streams holding up well. Car parking income in April 2022 ahead of pre-pandemic levels.*
COVID-19 related costs – uncertain whether additional costs will be incurred during 2022/23	These are now minimal. There are potential costs remaining within the Somerset Waste Partnership and these will be covered with the balance of COVID-19 grant received in 2021/22.	*COVID-19 costs now minimal*
Council Tax and Business Rates collection rates	The collection rates in the current year have recovered from 2020/21 levels but are still not at historic rates. Government supported the 2020/21 losses with a 75% reimbursement scheme for losses through a Tax Income Guarantee Scheme. The court system for recovery of unpaid tax have now recommenced.	*Collection rates have recovered well but are still not at pre-pandemic levels*

Local Government Re-organisation –Shared transition costs will need to be funded, together with capacity within Mendip Council	Allocation made for transition costs of £1.2m in December 2021 from MTFP reserve. Share of Election costs to be funded from existing budgets Resourcing requirements for LGR are being monitored on a monthly basis.	*LGR Staffing costs for 2021/22 are below estimate. This will leave a larger balance in 2022/23 which can help with areas under pressure*
Saxonvale – investment made to purchase land will be repaid through the phased development of the site for housing and business.	Carry forward of Homes England grant was agreed to 31 March 2022. Much of the work has now been completed. Option retained to fund the development which should offset the risks and could potentially provide a positive return to the council.	*Homes England funding deadline extended to 31.03.2023. Outline Planning now subject to s106 agreement which is anticipated shortly.*
Interest rate volatility	The bank of England base rate has recently increased from the all-time low of 0.1% to 0.25%. It is anticipated rates will now continue to rise. No further external borrowing is anticipated by Mendip.	*Base rate rapidly increase to 4.25% as at 31st March 2023*
Inflation	CPI has now increased to 5.1% for November 2021. This has been reflected in contract and other relevant budget lines. This could be volatile for a while with instability in areas such as energy prices.	*Inflation for April has now reached 9%. This has increased the risk of overspend on several budgets*

These risks will be updated and incorporated into the MTFP roll-forward which will be incorporates in the reports for the new Council Cabinet later in 2022/23.

Section 6 - The council's governance arrangements
The council has a well-established and robust corporate governance framework. This includes the statutory elements such as the posts of Chief Executive (as Head of Paid Service), Monitoring Officer and Chief Finance Officer (as s151 Officer).
An overview of this governance framework forms part of the Annual Governance Statement is published as part of the Statement of Accounts for 2021/22. This will include a detailed review of the effectiveness of the council's governance arrangements.

Section 7 - The external regulatory and control environment
As a principal local authority the council has to operate within a highly legislated and controlled environment. An example of this is the requirement for a balanced budget each year combined with the legal requirement for Council to have regard to consideration of such matters as the robustness of budget estimates and the adequacy of reserves.

In addition to the legal framework and central government control there are other factors such as the role undertaken by External Audit as well as the statutory requirement in some cases for compliance with best practice and guidance published by CIPFA and other relevant bodies.

Against this backdrop it is considered unlikely a local authority would be 'allowed to fail' with the likelihood being, when faced with such a scenario, that central government would intervene supported by organisations such as the Local Government Association to bring about the required improvements or help maintain service delivery. Indeed, over the last few years, this has been case with a number of Councils (for example, Croydon and Luton both of which have received support from the Government).

Section 8 – Local Government Re-organisation

During 2020/21, two business cases were submitted to government in relation to the future of local government within Somerset. A decision was made by the Secretary of State for Local Government in July 2021 agreeing to the formation of a single unitary authority for Somerset covering the area of the existing County Council and incorporating the four existing district councils, including Mendip. The changes were confirmed through a structural change order which was passed in early 2022.

The budget set for 2022/23 for Mendip was the final budget for the council. It was set as if the council was a continuing authority, such that the financial health of the council was clear and transparent to the new Council.

A Section 24 notice was in place during 22/23 which controlled new spending decisions of the existing councils, in excess of set thresholds, that could have a detrimental impact on the financial position of the new Council. This also applied to the sale of assets.

The functions, assets, liabilities, rights, and obligations of Mendip District Council transferred to the new unitary Somerset Council on 1 April 2023. This restructuring of local government in Somerset transferred responsibility to the new council for the continuity of locally provided public services. The Code is clear that transfers of services under combinations of public sector bodies, such as the Somerset reorganisation, do not negate the presumption of going concern. Moreover, the services currently provided by both the county and district councils will be continued under the management of the unitary council from the point of transfer.

Therefore, in accordance with the Code, the Statement of Accounts are to be prepared on the assumption that the council will continue to operate in the foreseeable future and that it will continue to do so within the current and anticipated future resources available. By this, it is meant that the council will realise its assets and settle its obligations in the normal course of business.

Section 9 – Conclusion

No material uncertainties have been identified in preparing this assessment.

Other useful documents

(a) Full Council 22 February 2021 – Item 12a Medium Term Financial Plan 2021/22 to 2023/24 and Detailed Revenue Budget for 2021/22
(b) Full Council 22 February 2021 – Item 12a, Appendix F - Section 25 Report 2021
(c) Full Council 22 February 2021 – Item 11a 2021/22 to 2025/26 Capital Strategy and 2021/22 Detailed Capital Investment Programme
(d) Full Council 21 February 2022 – Item 9a Medium Term Financial Plan 2022/23 to 2024/25 and Detailed Revenue Budget for 2022/23
(b) Full Council 21 February 2022 – Item 9, Appendix F - Section 25 Report 2022
(c) Full Council 21 February 2022 – Item 8 2022/23 to 2025/26 Capital Strategy and 2022/23 Detailed Capital Investment Programme

The Collection Fund Statement is a record of revenue expenditure and income relating to the council's role as a billing authority for council tax and national non-domestic rates (NNDR) in accordance with the requirements of section 89 of the Local Government Finance Act 1988. Its primary purpose is to show the transactions of the billing authority in relation to the collection from taxpayers of tax due and its distribution to other local authorities, Major Preceptors and the Government. Collection Fund Statement items are only included within the Comprehensive Income and Expenditure Account and Balance Sheet when they relate to the council's own entitlements or commitments as distinct from those of Local Government or Central Government partners. Amounts owed to or owing by taxpayers at the Balance Sheet Date are therefore not shown in the council's Balance Sheet with the exception of the proportion of council tax to which the council itself is entitled

It also shows how the income is distributed between Mendip District Council, Somerset County Council, Avon and Somerset Police and Crime Commissioner and Devon and Somerset Fire and Rescue Authority.

Billing authorities in England are required by statute to maintain a separate fund for the collection and distribution of amounts due in respect of council tax and non-domestic rates (NDR). The fund key features relevant to accounting for council tax in the core financial statements are:

- While the council tax income for the year credited to the Collection Fund is the accrued income for the year regulations determine when it should be released from the Collection Fund and transferred to the General Fund of the billing authority or paid out of the Collection Fund to major preceptors.

- Council tax income included in the Comprehensive Income and Expenditure Account for the year shall be the accrued income for the year. The difference between the income included in the Comprehensive Income and Expenditure Account and the amount required by regulation to be credited to the Collection Fund shall be taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

Since the collection of council tax and NDR Income is in substance an agency arrangement:

- Cash collected by the billing authority from council tax debtors belongs proportionately to the billing authority and the major preceptors. There will be therefore a debtor/creditor position between the billing authority and each major preceptor to be recognised since the net cash paid to each major preceptor in the year will not be its share of the cash collected from council taxpayers.

- Cash collected from NDR taxpayers by billing authorities (net of the cost of collection allowance) belongs to the government and preceptors and the amount not yet paid to them at the Balance Sheet date shall be included in the Balance Sheet as a creditor; similarly, if cash paid to the government and preceptors exceeds the cash collected from NDR taxpayers (net of the billing authority's cost of collection allowance), the excess shall be included in the Balance Sheet as a debtor.

The special expenses rate for 2021/22 was £5.03 (2020/21 was £5.03).

As part of the Business Rates Retention system, the Government introduced a system of Levies and Safety Nets. Growth is limited by a levy, which pays for a national Safety Net for councils whose Business Rates base declines by more than 7.5%.

	2020/21			**2021/22**		
	Council Tax £000	Non-Domestic Rates £000	Total Collection Fund £000	**Council Tax £000**	**Non-Domestic Rates £000**	**Total Collection Fund £000**
Amounts required by statute to be credited to the Collection Fund						
Council Tax Receivable (net of benefits' discounts for prompt payment and transitional relief)	(78,518)	N/A	(78,518)	**(83,739)**	**N/A**	**(83,739)**
Transfer from General Fund:						
- transitional relief	(14)	0	(14)	**0**	**0**	**0**
- hardship relief	(788)	0	(788)	**(84)**	**0**	**(84)**
Non Domestic Rates Receivable (net of discretionary and mandatory reliefs)	N/A	(16,561)	(16,561)	**N/A**	**(28,873)**	**(28,873)**
	(79,320)	(16,561)	(95,881)	**(83,823)**	**(28,873)**	**(112,696)**

Page 428

Page 429

	2020/21 Council Tax £000	2020/21 Non-Domestic Rates £000	2020/21 Total Collection Fund £000	**2021/22 Council Tax £000**	**2021/22 Non-Domestic Rates £000**	**2021/22 Total Collection Fund £000**
Amounts required by statute to be debited to the Collection Fund						
Precepts/demands for council tax and shares of non-domestic rating income						
- Somerset County Council	52,830	3,271	56,101	**55,952**	**3,290**	**59,242**
- Avon and Somerset Police & Crime Commissioner	9,335	0	9,335	**9,971**	**0**	**9,971**
- Devon and Somerset Fire and Rescue Service	3,616	363	3,979	**3,720**	**366**	**4,086**
- Mendip District Council	11,341	14,540	25,881	**11,964**	**14,623**	**26,587**
Payment with respect to central government share of NDR (net of allowable deductions)	N/A	18,175	18,175	**N/A**	**18,278**	**18,278**
Transitional protection payments non-domestic rates	N/A	(95)	(95)	**N/A**	**(192)**	**(192)**
Renewable Energy Disregard	0	92	92	**0**	**105**	**105**
Impairment:						
- change in the allowance for doubtful debt	54	821	875	**811**	**407**	**1,218**
- change in allowance for loss of income on appeals	N/A	470	470	**N/A**	**(576)**	**(576)**
Charge to the General Fund for allowable collection costs - non-domestic rates	N/A	166	166	**N/A**	**170**	**170**
(Surplus) / Deficit for Year	(2,144)	21,242	19,098	**(1,405)**	**7,598**	**6,193**

	2020/21			**2021/22**		
	Council Tax £000	Non-Domestic Rates £000	Total Collection Fund £000	**Council Tax £000**	**Non-Domestic Rates £000**	**Total Collection Fund £000**
Contribution towards previous year's estimated surplus:						
- Somerset County Council	1,085	15	1,100	**(273)**	**(1,725)**	**(1,998)**
- Avon and Somerset Police & Crime Commissioner	191	0	191	**(48)**	**0**	**(48)**
- Devon and Somerset Fire and Rescue Service	76	3	79	**(19)**	**(190)**	**(209)**
- Mendip District Council	224	101	325	**(59)**	**(7,615)**	**(7,674)**
- Central Government	N/A	137	137	**N/A**	**(9,501)**	**(9,501)**
Movement on the fund	(568)	21,498	20,930	**(1,804)**	**(11,433)**	**(13,237)**
Opening fund balance	(1,511)	(196)	(1,707)	**(2,079)**	**21,302**	**19,223**
Closing fund balance	(2,079)	21,302	19,223	**(3,883)**	**9,869**	**5,986**

8.01 COUNCIL TAX

The average council tax at Band D set by the council was as follows:

	2020/21 £000	**2021/22** **£000**
Somerset County Council	1,289.20	**1,353.53**
Avon and Somerset Police & Crime Commissioner	227.81	**241.20**
Devon and Somerset Fire and Rescue Service	88.24	**90.00**
Mendip District Council	161.61	**166.61**
Somerset Rivers Authority	1.84	**1.84**
Town and Parish council's (average)	108.27	**115.94**
Special Expenses (average)	5.02	**5.03**
	1,881.99	**1,974.15**

The amount of income generated in 2021/22 by each council tax band was as follows:

Band	Band Multiplier	Chargeable Dwellings	Band D Equivalent	Council Tax Income per Band (£)
A	6/9	4,471	2,980.50	5,937,809
B	7/9	10,383	8,075.40	16,087,967
C	8/9	10,872	9,664.30	19,253,404
D	9/9	7,108	7,108.20	14,161,093
E	11/9	5,512	6,737.10	13,421,780
F	13/9	3,165	4,571.40	9,107,231
G	15/9	1,832	3,052.60	6,081,448
H	18/9	115	229.50	457,214
Disabled Band A			3.70	
Less 2% losses on collection			(1,084.94)	
Tax Base (equivalent Band D)			**41,337.76**	

The 2021/22 tax base approved by council was 41,337.76 (40,978.57 in 2020/21). This figure was arrived at after allowing for contributions in lieu of council tax and impairment provision.

8.02 INCOME COLLECTABLE FROM BUSINESS RATE PAYERS

The council collects non-domestic rates for its area based on local rateable values multiplied by a uniform national rating multiplier.

	2020/21	**2021/22**
Non domestic rateable value as at 31 March	95,498,287	96,987,219
Non-domestic rate multiplier <£51,000	49.9p	49.9p
Non-domestic rate multiplier >£51,000	51.2p	51.2p

Mendip District Council wholly owns Shape Housing Ltd which has been categorised as a subsidiary of the authority, the accounts have not been consolidated due to Shape Housing Ltd being immaterial.

Shape Housing Ltd was established on 23 July 2015 and was created to operate commercially with the primary aim of making an annual revenue contribution to the council in the form of dividends and / or profits to reinvest back into local services and deliver outcomes for residents.

10 GLOSSARY

For the purpose of compiling the Statement of Accounts, the following definitions have been adopted.

Accounts
A generic term for statements setting out details of income and expenditure or assets and liabilities or both in a structured manner. Accounts may be categorised by the type of transactions they record e.g. revenue accounts, capital accounts or by the purpose they serve e.g. management accounts, final accounts, balance sheets.

Accounting policies
Those principles, bases, conventions, rules and practices applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements through:

(a) recognising
(b) selecting measurement bases for, and
(c) presenting assets, liabilities, gains, losses and changes to reserves.

Accounting policies define the process whereby transactions and other events are reflected in financial statements. For example, an accounting policy for a particular type of expenditure may specify whether an asset or a loss is to be recognised; the basis on which it is to be measured; and where in the revenue account or balance sheet it is to be presented.

Accounting standards
A set of rules explaining how accounts are to be kept. By law, local councils must follow ‘proper accounting practices’, which are set out in Act of Parliament and in professional codes and statements of recommended practices. These standards make comparability, among other things, possible.

Accrual
The recognition of income and expenditure as it is earned or incurred, as opposed to when cash is received or paid.

Actuarial gains and losses
For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because:

(a) events have not coincided with the actuarial assumptions made for the last valuation (experience gains or losses); or
(b) the actuarial assumptions have changed.

10 GLOSSARY

Amortisation
The reducing of the value of assets to reflect their reduced worth over time. The term means the same as depreciation, though in practice amortisation tends to be used for the write-off of intangible assets.

Assets
These can either be:

- Long Term Assets (non-current), tangible assets that give benefits to the council for more than one year. Current Assets are tangible assets that give benefits to the council within the next twelve months.
- Property, Plant and Equipment, assets which are held for use in the production or supply or goods and services, for rental to other, or for administrative purposes.
- Investment property is property (land or a building, or part of a building, or both) held solely to earn rentals at market rate or for capital appreciation, or both.
- Intangible assets, these are usually stand-alone intellectual property rights such as software licences that, although they have no physical substance are right to show on the balance sheet where they have been capitalised as being of benefit for more than the year of account. Where software is integral to the running of hardware it is properly included in the value of the hardware.

Audit – internal
The council has an internal audit service provided by the South West Audit Partnership (SWAP) who maintains a presence at Mendip all year. They have a wide ranging role and are responsible for auditing key financial systems and all other activities of the council on a rolling programme. They make recommendations to improve internal controls, safeguard assets and secure value for money.

Audit – external
Our external auditors are Ernst & Young LLP. They report to the council on a number of issues, but in this context they provide assurance to the council that this statement of accounts ‘presents a true and fair view’ of the council’s financial affairs and position.

Balance sheet
A statement of the recorded assets, liabilities and other balances at a specific date at the end of an accounting period.

Budget
A forecast of the council’s planned expenditure. The level of council tax is set by reference to detailed revenue budgets. Budgets are reviewed during the course of the financial year to take account of pay and price changes, and other factors affecting the level or cost of services.

Cabinet
The Cabinet is the executive board responsible for undertaking all of the council's functions, except those functions which are reserved to the full council or delegated to committees or officers. When the executive councillors meet collectively they are known as the cabinet.

Capital adjustment account
This account holds financing transactions relating to capital expenditure.

Capital charges
Charges made to service expenditure accounts based on the service's use of property, plant and equipment assets (depreciation and impairment) plus credits relating to government grants and capital contributions used to pay for those assets.

Capital expenditure
Expenditure on the acquisition or enhancement of property, plant and equipment assets, Revenue Expenditure Financed by Capital under Statute (REFCUS), advances (loans) or grants to other individuals/organisations.

Capital receipts
Income received from the sale of property, plant and equipment assets or repayment of capital advances (loans).

Central services to the public
This includes the costs of local tax collection, elections, emergency planning, local land charges and any general grants.

CIPFA
CIPFA is the Chartered Institute of Public Finance and Accountancy, which is the leading professional accountancy body for public services.

Code of Practice on Local Authority Accounting in the United Kingdom
Issued by CIPFA, this is the guidance which is followed when preparing these statements. It provides expert support in dealing practically with the preparation of the year-end accounts and is the guidance by which every local authority must follow.

Collection fund
The fund into which are paid amounts of council tax and non-domestic rates and from which are met demands by county and district councils and payments to the national non-domestic rates pool.

Page 437

Community assets
Community assets are a class of property, plant and equipment assets which are expected to be held by the council in perpetuity. Examples include parks, historic buildings and works of art.

Corporate and democratic core
Comprises all activities which local authorities engage in because they are elected, multipurpose authorities. It includes the costs of the Head of the Paid Service, costs of treasury management and bank charges and the costs of democratic representation.

Council tax
A local tax set by councils to help pay for local services. There is one bill per dwelling based on its relative value compared to others in the area. There are discounts, including where only one adult lives in the dwelling. Bills will also be reduced for properties with people on low incomes, for some people with disabilities and some other special cases.

Current service cost (pensions)
The increase in the present value of a defined scheme's liabilities, expected to arise from employee service in the current period.

Current Value
The amount at which would be paid for the asset in its existing use.

Deferred credits
Income still to be received (or applied in the accounts) where deferred payments (or application) have been allowed. For example the principal outstanding from the sale of council houses (deferred capital receipts).

Defined benefit scheme
A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

Depreciation
Depreciation is the measure of the consumption or wearing out of the useful economic life of a property, plant and equipment asset.

Events after the balance sheet date
Those events, favourable and unfavourable, that occur between the Balance Sheet date and the date when the Statement of Accounts is authorised for issue.

Fair value
The amount at which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

Financial instruments adjustment account
This account includes transactions relating to the reversal of the fair value adjustment from the Income and Expenditure account so as to neutralise the effect on the council taxpayer.

Finance lease
A lease that transfers substantially all of the risks and rewards of ownership of a property, plant and equipment asset to the lessee.

General fund (GF)
This is the primary revenue account which records the cost of providing the majority of the council's services.

Housing benefit
The housing benefit scheme is a national scheme administered at a local level by the council. It is a means-tested service where the council can pay all, or part of, a household's rent or council tax, or both.

Housing benefit subsidy
The government reimburses the council for most of the housing benefit payments made to residents plus an allowance to cover the costs of administering the scheme.

International Accounting Standard 19 – Employee Benefits
This Standard is based on the principle that an organisation should account for retirement benefits when it is committed to give them, even if the actual giving will be many years into the future.

Impairment
A reduction in the value of a property, plant and equipment asset below its carrying amount on the balance sheet.

International financial reporting standards (IFRS)
These are designed as a common global language for businesses so that accounts are understandable and comparable across international boundaries. All councils in Great Britain and Ireland follow the same set of standards.

Lease
A lease is a contractual arrangement whereby the lessee (user) pays the lessor (owner) for use of an asset. Broadly put, a lease agreement is a contract between two parties, the lessor and the lessee. The lessor is the legal owner of the asset, the lessee obtains the right to use the asset in return for rental payments for an agreed period of time

Liabilities
Amounts the council either owes or anticipates owing to others, whether they are due for immediate payment or not.
Current Liabilities are amounts the council owes in the next twelve months and long-term liabilities are amounts the councils owes greater than twelve months.

Minimum revenue provision (MRP)
The minimum amount the council must charge to the revenue account in the year in respect of the repayment of principal of borrowing for capital purposes.

Non-domestic rates (NDR)
The form of local taxation charged on non-residential premises at a level set by central government.

Net book value
The amount at which property, plant and equipment assets are included in the balance sheet i.e. their historical cost or fair value less the cumulative amounts provided for depreciation and impairment.

Net service expenditure
Comprises of all expenditure less all income, other than income from council tax and revenue support grant, in respect of a particular service.

Non-distributed costs
Overheads for which no user now benefits and should not be apportioned to services. Costs generally included under this heading are those arising from early retirement payments to the pension fund.

Operating lease
A lease agreement in which substantially all of the risks and rewards of ownership of a property, plant and equipment asset remain with the lessor.

Outturn
The final total expenditure and income amount in any financial year.

Overheads
The costs of overheads and support services are charged to those services that benefit from the supply or service. This is proportioned on either case basis, FTE basis or turnover basis.

Past service cost
The increase in the present value of the pension scheme liabilities, related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

Precept
The charge made by another authority on the council to finance its net expenditure. The council currently has the following precepting authorities: Somerset County Council, Avon and Somerset Police and Crime Commissioner, Devon and Somerset Fire Authority and all the city, town and parish councils in the district.

Prior period adjustments
Those adjustments applicable to prior years arising from the correction of material errors.

Provisions
Amounts set aside for liabilities of uncertain timing or amount that have been incurred.

Related parties
This is defined under Financial Reporting Standard 8. The council is required to disclose material transactions with related parties, which can include central government, subsidiary and associated companies, the Pension Fund, other councils, and chief and senior officers. IAS24 requires attention to be drawn to the possibility that the reported financial position may have been affected by the existence of related parties and by material transactions with them.

Two or more parties are related parties when at any time during the financial period:

(a) one party has direct or indirect control of the other; or
(b) the parties are subject to common control from the same source; or
(c) one party has influence over the financial and operational policies of the other party to the extent that the other party might be inhibited from pursuing at all times its own separate interests; or
(d) the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interest.

Remuneration
All sums paid to or receivable by an employee and sums due by way of expenses allowances and the money value of any other benefits received other than in cash (excludes employer pension contributions).

Reserves
The general capital and revenue balances of the council. There are two types of reserves which might be described as either available or not available to finance expenditure. Revenue reserves which result from monies being set aside or surpluses or delayed expenditure can be spent or earmarked at the discretion of the council (e.g. General Fund and Housing Revenue Account General Reserves). The capital receipts reserve is also available to the extent allowed for by statute. However, other capital reserves are not available to meet expenditure, e.g. the capital adjustment account. Reserves prudently held to cover potential liabilities. Payments to reserves are not counted as service expenditure. Payments from reserves are passed through service revenue accounts, as against provisions, where it is not. Earmarked reserves are allocated for a specific purpose. Unallocated reserves are described as balances.

Revaluation reserve
This account includes transactions relating to the revaluation and impairment of the councils assets.

Revenue expenditure
Day to day expenditure incurred in the provision of services including salaries and wages, transport and goods and services.

Revenue Expenditure Financed by Capital under Statute (REFCUS)
A type of capital expenditure which may be deferred but which does not give rise to tangible assets. Examples are renovation grants (grants to private individuals and companies to improve housing standards) and capital grants to other organisations.

Revenue support grant
A grant paid by the government in support of the council's revenue expenditure, as part of the Formula Grant.

Section 151 Officer
Another term to describe the Corporate Financial Advisor of the council with responsibilities as set out in the Statement of Responsibilities for the Statement of Accounts

This page is intentionally left blank

Mendip District Council

Annual Governance Statement 2021/22

The undersigned are satisfied that the assessment is accurate and indicates that appropriate governance arrangements are in place at Mendip District Council. We will ensure that steps to address matters raised in the assessment to further enhance our governance arrangements will be taken over the coming year.

Signed: ……………………………………………Date: …………………….

Chief Executive on behalf of Mendip District Council

Signed: ……………………………………………Date: …………………….

Chair of Audit Committee on behalf of Mendip District Council

Version Control

Version 1	25/07/2022	Version to Audit Committee
Version 2	28/09/2023	Final Version to Somerset Council Audit Committee
~~Version 3~~		

Formatted: Justified

1. Introduction to Governance

1.1. The governance framework comprises the systems, processes, culture, and values by which the authority is directed and controlled. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services. The governance framework has been in place at Mendip District Council for the year ended 31st March 2022 and up to the date of approval of the Statement of Accounts.

1.2. As a public body Mendip District Council is responsible for providing services to approximately 115,100 residents, thousands of varied businesses, and hundreds of thousands of visitors per year. Therefore, the Council needs to have a strong governance framework that ensures that:

- Its business is conducted to the highest standards;
- Resources are directed in accordance with agreed policy and according to priorities whilst having regard to economy, efficiency and effectiveness;
- There is sound and inclusive decision making, conducted in accordance with the law and proper standards;
- There is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities;
- Public money is safeguarded and properly accounted for;
- Continuous improvement is achieved in the way in which its functions are exercised.

1.3. The Council's Corporate Plan sets out the priority areas for Mendip District Council and is reviewed regularly to ensure the strategic objectives meet the needs of the community. The Authority through the activities for which it is accountable for engages with and leads the community. Our residents and businesses are central to everything we do, and we are committed to improving the health and wellbeing of our communities. In February of 2020 the Council published its new three-year Corporate Plan with the intention to build a fairer, greener, and more vibrant Mendip that values our distinctive towns and rural communities.

1.4. Mendip District Council is responsible for ensuring that its business is conducted in accordance with the law, regulations and proper standards, and that public money is safeguarded from waste, extravagance, or misappropriation. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency, and effectiveness in the exercise of its responsibilities.
As part of ensuring the highest standards are set and maintained, the Council regularly reviews its governance arrangements. This statement reflects how Mendip District Council has met those standards in 2021/22 and the ongoing actions it is taking to maintain and improve its governance arrangements.

2. The Annual Governance Statement

2.1. The Council is required by Accounts and Audit (England) regulations 2015 regulation 6(1) (b), as part of its annual review of the effectiveness of its governance arrangements, to produce an Annual Governance Statement (AGS) for 2021/22. This will be signed by the Council's Chief Executive and Chair of Audit Committee, after final approval by the Audit Committee. The AGS will form part of the Annual Statement of Accounts for 2021/22.

2.2. The AGS is drafted by those who have lead roles in corporate governance. The evidence for the AGS comes from a variety of sources, including service plans, relevant lead Officers within the organisation, internal and external auditors, and inspection agencies. The governance of the Council will continue to be monitored by Cabinet, other Councillor Committees, and the Council's Senior Leadership Team.

2.3. The AGS is primarily retrospective in respect of the 2021/22 financial year. It reports on the assurance framework and measures in place for the previous financial year but must take account of any significant issues of governance up to the date of publication of the Statement of Accounts. The AGS should outline the actions taken or proposed to address any significant governance issues identified.

2.4. Evidence of how the Council has assessed itself in line with the seven core principles of good governance set out by the Chartered Institute of Public Finance and Accountancy (CIPFA) in its publication 'Delivering good governance', listed below, is detailed in Sections 6 -12.

2.5. The AGS also requires the Council to identify any significant internal control issues affecting the Council during the relevant period. CIPFA guidance suggests that an internal control issue is to be regarded as significant if the issue has:

- Seriously prejudiced or prevented achievement of a principal objective;
- Resulted in a need to seek additional funding to allow it to be resolved, or has resulted in significant diversion of resources from another aspect of the business;
- Led to a material impact on the accounts;
- Required the Audit Committee, or equivalent, to be advised;
- Been reported by the Head of Internal Audit in the annual opinion on the internal control environment;
- Has attracted significant public interest or has seriously damaged the reputation of the organisation;
- Resulted in formal action being taken by the Chief Financial Officer and/or the Monitoring Officer.

2.6. The Council's internal auditors have given an overall audit opinion of reasonable not identifying any significant deficiencies on the effectiveness of the Council's control environment for 2021/22.

3. Governance responsibility

3.1. Elected Members are collectively responsible for the governance of the Council. Full Council's responsibilities include:

- Agreeing the Council's constitution, comprising the key governance documents, including the executive arrangements, and making any necessary changes to ensure that the Constitution remains fit for purpose and reflects legislation and best practice;

- Agreeing the budget and policy framework, including key strategies;
- Appointing the head of paid service;
- Appointing Members to Committees responsible for scrutiny functions, audit, standards and regulatory matters.

3.2. The decision making structure of the Council is available (Page 7 here) 1.

3.3. The Council operates a leader and cabinet executive model in accordance with the Localism Act 2011. Under these arrangements the Cabinet carries out all the Council's functions which are not the responsibility of any other part of the Council. Cabinet meets monthly and its decisions in 2021/22 can be found on the Council website (here) 2.

3.4. The Cabinet is held to account by Scrutiny Board whose function is to review and/or scrutinise decisions made; or actions taken in connection with the discharge of the Council's functions; and assist with policy development.

3.5. Cabinet recognised that transformational success will be driven by a strong, empowered, flexible and timely governance structure. As a result, it formed a new Board in 2016/17, named Phoenix Sponsorship Board. In 2020/21 the work of this Board was refocussed in order to provide the Council with support and assurance on the effective delivery of the enterprise and commercial investment agenda. Thus, at a strategic level, the Phoenix Board was shaping and driving the Council's Investment Programme ensuring it is delivered effectively and efficiently, and that it meets the financial and corporate objectives of the Council.

[1] Constitution_Section_01_-_Introduction_and_Summary
[2] https://www.mendip.gov.uk/cabinet

4. Internal Control

4.1. The system of internal control is a significant part of the governance framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to:

- Identify and prioritise the risks to the achievement of the Council's policies, aims and objectives;
- Evaluate the likelihood of those risks being realised and the impact should they be realised;
- Manage the risks efficiently, effectively and economically.

4.2. The process that has been applied to maintaining and reviewing the effectiveness of the governance framework includes:

- The Monitoring Officer has a duty to monitor and review the operation of the constitution to ensure its aims and principles are adequate. The Council reviews the constitution annually, with the Standards Committee having an ongoing oversight role.
- The Council's Section 151 Officer (S151 Officer) has confirmed the Authority's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).
- The Council has a Scrutiny Board that can call in any decision made by Cabinet before implementation. This enables them to consider whether the decision is appropriate.
- The Audit Committee reviews the Annual Statement of Accounts, the review of the Effectiveness of Internal Audit and the Annual Governance Statement. It has a call-in role for any service that receives a "limited" or "no assurance" audit opinion and monitors the action plans to ensure they are completed. It monitors the performance of internal audit at each meeting and agrees the annual internal and external audit plans.
- Internal Audit, delivered for the authority through the South West Audit Partnership Ltd (SWAP), is responsible for monitoring the quality and effectiveness of systems of internal control. The Audit service has a Charter approved by the Audit Committee and there are no restrictions on the scope of their work. A risk model is used to formulate the plan, which is then approved by the Corporate Management Team. The reporting process for internal audit requires a report of each audit to be submitted to the relevant Head of Service or Senior Managers, with copies to S151 Officer and the Monitoring Officer.

5. Review of effectiveness of the governance framework

The Council has a legal responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the managers within the council who have responsibility for the development and maintenance of the governance environment, the SWAP Internal audit manager's annual report, and by comments made by the external auditors and other review agencies and inspectorates. The use of Audit reports by the Council is discussed in more detail in section 13.

5.1. Leadership of governance and internal control

Responsibility for governance and internal control lies with the Chief Executive and the Strategic Leadership Team (SLT) which meet on a bi-weekly basis to steer the organisation's activity. SLT receive a regular suite of assurance reports from several sources, including the Internal and external Audit reports, Corporate Risk Register, and the Corporate Performance Report, which allows the Council to track performance towards its agreed objectives. Every other week SLT combine with the Heads of Service as Corporate Management Team (CMT). Once per year SLT review the progress in addressing the significant governance challenges which have been identified.

The following highlights our review of our governance framework and sets out the assurances of Committees, Officers and external organisations.

5.2. Review of Objectives

The Council's current strategic objectives are contained in the Corporate Plan. A Corporate Performance Report based on the key commitments /priorities of the Corporate Plan, is produced quarterly and progress against milestones is recorded and a RAG (Red, Amber and Green) indicator is used to demonstrate progress and direction of travel based on a combination of qualitative and quantitative data.

From the Q4 Corporate Delivery plan at present there are a total of 17 priority actions. This number may change during the lifetime of the plan as actions are achieved. The status of these actions at the end of Q4 2021/2022 is as follows;

- 13 (76%) are green
- 4 (24%) are amber
- 0 (0%) are red
- 0 (0%) are not yet due to start.

This report provides a summary of the Council's Corporate Performance for 2021/22, providing status updates for the Corporate Plan actions and projects that are currently live. Several strategic actions are monitored against each priority. The performance report is based on strategic actions as identified in the corporate plan, along with a basket of service-related key performance indicators. The Corporate Performance report is subject to a rigorous approval process, whereby it is checked by Corporate Management Team as data owners and signed off by the appropriate Portfolio Holder. The report is then considered by Scrutiny Board with any comments or recommendations made by the Board incorporated into the report when it is subsequently considered by Cabinet. On a quarterly basis, Cabinet members discuss the report. At any point, Councillors may request the addition of any aspects of poor performance to the agenda of the next Scrutiny Board meeting.

Quarterly analysis of the performance report demonstrates that the Council is meeting the majority of key performance measures. In addition, the analysis shows a long-term, on-going trend of improvement.

5.3. On 24 February 2020, Mendip District Council adopted the new Corporate Plan 2020-2023.

It informs the Council's decision-making, the activities and services we offer, and how we allocate resources.

5.4. Our Aim is:

To build a fairer, greener and more vibrant Mendip that values our distinctive towns and rural communities.

5.5. Our Corporate Priorities are to:

5.5.1. Make Mendip a fairer place

Our district has much to offer in terms of quality of life. However, we know that not everyone has the same level of opportunity and that austerity and growth inequality mean that some people experience real challenges.

The Council has a crucial role to play in ensuring that all our residents can access the services and support they are entitled to, open opportunities, lead more secure lives and be able to play a full role in the community.

5.5.2. Deliver on our climate and ecological commitment

The Council has declared a Climate Emergency and we are committed to the aim of becoming carbon neutral by 2030. Our Climate and Ecological Emergency Group (CEEG) has been set up to oversee and co-ordinate this work under a number of themes:

Behaviour Change, Built Environment, Energy, Food and Nature, Money and Investment, Transportation, Waste and Water.

5.5.3. Protect and enhance our towns and rural communities

This priority focuses on the city, towns and villages in Mendip and addressing the housing, services and infrastructure needs of the Communities who live in them. It is also about working with local people and partners to contribute to the protection and enhancement of the built and natural environment.

5.5.4. The above priorities/commitments are supported by:

4 Key Principles	Supported by 3 Core values &

Be transparent and open in our decision making	Leadership
Be an inclusive employer that invests in our workforce	Creativity
Be a relationship builder with local, regional and national partners	Achievement
Be smart in how we manage resources	**Related Values**
	Integrity
	Respect
	Challenge

This year has yet again been challenging for our staff due to recovering from the impact of the COVID pandemic, the change of Corporate Plan for the Council in September 2021, and the legal requirement to become a Unitary Authority, which was announced in July 2021. As part of the impact of LGR the Cabinet proposed a reduction in the areas of focus over the final two years of the council, recognising that in the final year particularly there would be a rising need to redeploy staff to set up the new organisation.

5.5.5. Assessment of the robustness of corporate governance across services

Services have processes for setting objectives, in line with Corporate and service priorities, and planning to deliver them.

Officers are aware of and know how to engage with and support the Scrutiny Board Committee and working groups.

Services welcome peer challenge, internal and external review and audit, and inspections from regulatory bodies, and give thorough consideration to arising recommendations. They put in place arrangements for the implementation of actions agreed to be taken as a result, including them in relevant business plans, and there is clear oversight from elected Members on the conclusions and resultant actions.

The Council strives for continued improvement of governance and communication of workforce policy and associated guidance, so that it is clear, easily accessible, and monitors that policies are consistently followed across services.

The Council has continued its approach of asking budget holders /Managers to forecast whether they are on track to deliver year-end outcomes. For each target or action that is 'below target', the owner must provide an action to get back on track or an explanation as to why the target may need review. The Council has a standard process for monitoring the performance of key contractors, whose performance is scrutinised and as part of this process they are regularly invited to attend the Scrutiny Board.

The consequence of all the approaches listed above is that the Council has a strong focus on delivering priorities, managing performance against targets and progressing actions.

The review process, applied in respect of maintaining and reviewing the effectiveness of the system of internal control, is informed by:

5.5.6. Internal Audit Reviews

The views of SWAP Internal Audit are regularly reported to Audit Committee via the 'Internal Audit quarterly progress update Report' which include executive summaries of new reports published where critical weaknesses or unacceptably high levels of risk were identified. In addition, where appropriate, the relevant Head of Service is required to attend a meeting to update the Committee regarding progress and to detail any necessary actions.

5.5.7. External Auditor's Review of the Effectiveness of Governance Arrangements

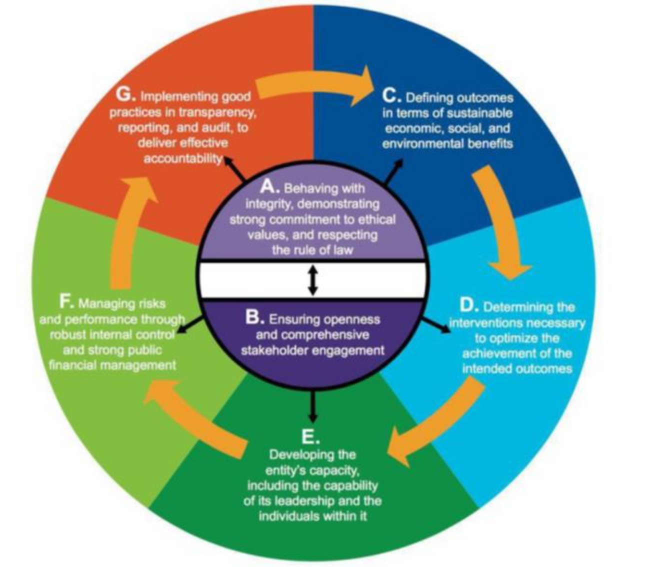
Ernst & Young LLP are the Council's External Auditors. The Auditors carry out auditing of the Council's activities in accordance with the National Audit Office (NAO) Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014. Their key responsibilities are to:

- Give an opinion on the Council's financial statements and assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion).
- Produce an Annual Audit Letter which summarises the key areas highlighted by the work they have carried out.

After conducting this review the Council has assurance that its governance arrangements and systems of control are robust and reflect the principles of the Code of Corporate Governance-TBC.

6. Mendip District Council's Annual Governance Statement 2021/22

6.1. The diagram from the International Framework, below illustrates how the various principles for good governance in the public sector relate to each other. Principles A and B permeate implementation of principles C to G. The diagram also illustrates that good governance is dynamic, and that an entity should be committed to improving governance on a continuing basis through a process of evaluation and review.



6.2. The following sections set out how Mendip District Council delivers good governance, how it performed in that role in 2021/22 and what it is doing to continually improve.

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

B) Ensuring Openness, Transparency and Comprehensive Stakeholder Engagement – delivering Accountability

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 capacity, including the capacity of the Council's leadership and the individuals within it

F) Managing risks and performance through robust internal controls and strong public financial management

G) Implementing good practises in transparency reporting and audit to deliver effective accountability

6.3. Ongoing Issues/Projects identified in 2021/22 and update prior years

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

7.1. Mendip District Council's Constitution provides the framework within which the Council operates. It sets out how decisions are made and the procedures which must be followed to ensure that these are efficient, effective, transparent and accountable. The Constitution is reviewed on an ongoing basis. This practice ensures that the Constitution remains fit for purpose and is updated for national and local changes in circumstances.

7.2. The Constitution, published on the website (Here)3, includes the Members' Code of Conduct which makes clear the obligation of elected Members in promoting and maintaining high standards of conduct and ensuring the principles of public life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership) are adhered to. Pecuniary and non- pecuniary interests are registered in accordance with the requirements of the Code of Conduct and the underlying legislation.

7.3. The Council also has an Officer Code of Conduct as well as guidance on the registration of interests, gifts and hospitality for both staff and members. This is also reviewed regularly by the Council's Monitoring Officer. The reports to Standards Committee regarding the registers are available for public scrutiny via the website (here) [4]. The Code of Conduct for Members' requires declarations at meetings to be made by Members where necessary and these declarations are recorded in the minutes of the meeting.

7.4. There is a strong culture operating in the Council of acting to the highest standards. This is rooted in the behaviours expected of Councillors and staff and upheld by the senior leaders. This culture has been underpinned by a joint staff and Councillor development plan, known as Shape our Future and is reflected in our values.

7.5. Where any resident feels the Council has not acted properly the Council has a robust process for dealing with complaints. The quarterly Corporate Performance Reports submitted to Cabinet and Scrutiny Board Meetings report on the performance of each service in responding to feedback as well as the nature of the feedback received, the actions that have been taken and the lessons that have been learnt. In line with our corporate feedback guidance, if a resident is not satisfied with the initial

3. Council's Constitution - Mendip District Council
[4]Standards Committee - Mendip District Council

response to their complaint, they may appeal. Should they not be satisfied with the Council's final response in relation to the complaint, they can complain to the Local Government Ombudsman.

7.6. As mentioned above the Council publishes and promotes a code of conduct for its staff that details what is expected of all employees. The performance coaching review scheme provides an opportunity for the manager and post holder to come together to talk about performance, competency targets and personal development. The review discussion is complemented by regular one-to- one meetings which are held throughout the year. Effective performance and continual improvement are essential parts of the Council's service delivery.

7.7. The Council has established recruitment policies to ensure that appointments to the Council are fair and ethical and meet the requirements of equalities legislation and takes account of the need to ensure diversity. Any applicant who has identified themselves as disabled and who meets the essential requirements of the person specification will be automatically invited to interview. This policy is part of the Council's wider Equality and Diversity Policy that ensures all appropriate decisions are taken with issues of equalities in mind. Ethical considerations will be evident in the Council's Procurement Strategy where Social and Environmental factors are a key feature.

7.8. Working with the Head of Law & Governance Services, a new Procurement Target Operating Model (TOM) was developed with 2 procurement roles who will report to Section 151 Officer.

7.9. The Council operates an Anti-Fraud and Corruption Policy https://www.mendip.gov.uk/article/9800/Report-Fraud-Corruption-or-Whistleblowing-Concerns (here) [5] which operates as part of the governance framework to ensure the Council operates within the law. The Council also has policies on Whistleblowing (here) [6], Complaints and other Human Resources Policies that are available on SharePoint to all employees.

7.10. The Council has appointed independent external auditors (Ernst and Young LLP) and the South West Audit Partnership Limited (SWAP) who provide an internal audit function. Ernst & Young LLP and SWAP's Annual reports and interim reports were considered during 2021/22 by the Council's Audit Committee (here). The issues raised during the public inspection period for 2020-21 required no amendments to the Statement of Accounts, after a review by the External Auditor, otherwise no governance concerns of significance have been raised in 2021/22.

7.11. The Council appoints an Independent Remuneration Panel when required to advise and make recommendations to the Council on the setting of Member allowances in accordance with the Local Authorities (Member Allowances) (England) Regulations 2003.

7.12. The Council has developed numerous partnerships to allow for resources to be used more efficiently and outcomes achieved more effectively. These have their own governance arrangements, including Somerset Waste Partnership, Shape Mendip, Legal Shared Service, Somerset Building Control Partnership, Five Councils Partnership (5C Partnership).

7.13. Statutory Officers' responsibilities are defined in the Constitution and are employed in accordance with statutory guidance. The S151 Officer leads the promotion and delivery of good financial management through attendance at Council, Cabinet and Committee meetings and organises specialist workshops/training for Officers and Members as appropriate and as part of the new Member induction programme.

7.14. The Monitoring Officer and S151 meet regularly with the Chief Executive and Corporate Management team to discuss any matters relevant to their statutory functions.

5 & 6 Report Fraud, Corruption or Whistleblowing Concerns - Mendip District Council

8. B) Ensuring Openness, Transparency and Comprehensive Stakeholder Engagement – delivering Accountability

8.1. The Constitution sets out the legal and constitutional framework for good decision making, including the principles of decision making, schemes of delegation, recording of decisions and access to information relating to decisions. All Council, Cabinet and Committee report templates include a section on legal and financial considerations. These can be seen in all decisions made.

8.2. The Council publishes a rolling forward plan which is updated weekly that provides details of key decisions to be made by the Council and its Committees for at least three and typically four months ahead. Also included is detail of other business to be considered during the period of the plan. This provides an open culture by demonstrating, documenting and communicating the Council's commitment to openness. Reports are written on standard templates providing clear reasoning and evidence for decisions. Both formal and informal consultation and engagement as appropriate is used to determine the best course of action.

8.3. The Council's scrutiny arrangements were improved in 2017/18 and now in 2021/22 consist of a Scrutiny Board which meets at least quarterly and five Scrutiny working groups which are: Policies and Strategies, Managing Contracts, Access, Climate and Ecological and Breaking the Cycle of Disadvantage. Most scrutiny work is done by small groups of elected Members who meet to review issues in their own areas. Interested parties including consultants and contractors are often invited to contribute to this work. Each working group then produces a report presenting their findings to the quarterly scrutiny board. The Scrutiny Board produces a report for Full Council in May each year and makes recommendations to Cabinet and others as necessary on how the issue or service could be improved.

8.4. These arrangements serve to hold the Cabinet, its Committees, individual Cabinet Members and Officers to public account for their executive policies, decisions and actions and serves to make sure that decisions are taken based on sound evidence and are in the best interests of the people of Mendip.

8.5. In 2021/22 Scrutiny considered a wide range of subjects and the latest Forward Plan can be found within the latest meeting papers on the website (here)[7].

8.6. The Council consults appropriately in line with its consultation policy and legal requirements in order to inform its decision making. During the year the Council carried out several public consultations whose feedback was reported to Cabinet as part of informing their decision making.

8.7 Public consultation was undertaken to inform the decision by Cabinet to apply for a pedestrianisation order. This was suggested to reduce fly-tipping and environmental damage and improve the amenity to an area of the district but involves the closing of two roads. Additionally, a consultation was undertaken to inform a future decision proposed for Cabinet on the introduction of a public space protection order.

8.8 As a result of the pandemic there were more limited consultations in 2021/22. Further consultations relating to the Glastonbury Town Deal with an open day being held in March 22 at the Glastonbury Town Hall and a further consultation event in April 22 at the Tor Sports and Leisure Centre. Other projects within the Glastonbury Town Deal have also held local consultation events, including Glastonbury Abbey.

8.9. In order to develop the Levelling Up Fund Bid, consultation events were held between October 21 and January 22 in order to develop the Shepton Mallet Town Masterplan. Elements of the Masterplan are being submitted to Government in the Levelling Up Fund Bid and consultations were undertaken both online and in person.

8.10. The Council works hard to communicate its aims for the District. Future customer research is likely to be aligned to corporate priorities and projects. The Corporate Plan includes a number of commitments to work with partners and communities' groups and parish, town, and city councils, in respect of the Local Plan, Town Working Groups and Neighbourhood Plans. Contributions to the work of the Heart of the South West include representation at County, regional and national levels.

8.11. The Council makes available a range of important information on its website including its strategic aims and ambitions as part of the Corporate Plan. Further information is available on request and through the Council's arrangements for dealing with requests under Freedom of Information (FOI) legislation. In 2021/22 there were 548 FOI requests, with responses included on the website (here) [8] monthly.

8.12. Under the Transparency Code the Authority publishes data such as payments to suppliers, senior Officers' salaries and structure, contracts and tenders and annual pay policy statement. Where data is not available in the published data sets, instructions are available on how to make a Freedom of Information Request and the procedure that will be followed to answer them.

8.13. The annual accounts are published (here) [9] in a timely manner and in accordance with specified timescales so that the financial position and performance of the authority is open to public scrutiny in a timely manner.

8.14. Committee meetings, agendas and minutes are published in accordance with the Forward Plan and publication of agendas is done in accordance with the Local Government Act 1972. Where statutory timescales are not met then the appropriate consultation takes place with the Members. The public are able to speak at Council, Cabinet and Scrutiny

Committee. Public speaking is also available slots are also available at other Committee meetings, e.g. Licensing, Planning. All meetings are held in public unless exempt business is under discussion.

8.15. Engagement with staff happens in a number of ways; whole authority staff sessions held a minimum of once a year, services team meetings, project team meetings one-to-one meetings and weekly My Mendip newsletter. The Shape our Future development programme has also been a conduit to engage with staff, and the Staff Matters Group meet on a regular basis to consider and provide feedback and suggestions on matters of relevance to staff.

6 Scrutiny Board - Mendip District Council

7 https://www.mendip.gov.uk/foi

8 https://www.mendip.gov.uk/article/6971/Annual-Statement-of-Accounts

9. C) Defining Outcomes in terms of Sustainable Economic, Social and Environmental Benefits

9.1. Mendip District Council has a three-year Corporate Plan, adopted in February 2020. This plan has been prepared to reflect both the significant external challenges and changes that the council will have over the coming years as well as the changes to the way the council will have to operate to manage these challenges.

9.2. Part of the building of communities involves capital developments of buildings and other such infrastructure. The Council sets out a five-year Capital Programme as presented to Full Council in February tied into its Corporate Plan. This strategy is seen as a key strand of the future delivery of the Council's business. The Council's decision-making framework has ensured that all these decisions are reported through Cabinet and approved by Full Council.

9.3. Ethical considerations are evident in the Council's corporate procurement strategy along with social economic and environmental impacts. The Council is committed to achieving sustainable outcomes through skilful management of the procurement process and will endeavour to accompany this with value for money. The Council will consider the impact of its procurement by involving the community where possible and practical. Also, Mendip will investigate new ways to deliver services which will enhance the local environment and promote social inclusion. On 1 January 2021, Procurement Services were removed from the 5 Councils' Contract and returned to Mendip District Council as an in-house Service. Working with the Head of Law & Governance Services, a new Procurement Target Operating Model (TOM) was developed. This change will assist services in delivering services at best value with procurement ensuring economy and efficiencies in Council contracts with the use of new sourcing and tendering models.

9.4. The Council considers and balances the combined economic social and environmental impact of policies and plans when making decisions about service provision. It receives periodic reports on the combined economic, social and environmental impacts of its policies.

9.5. The Council actively seeks development opportunities in the district which will bring economic benefit to the region in the long term, using its appointed agents to provide professional advice. During 2020/21 we were successful working with partners in securing accelerator for Glastonbury town fund and subsequently nearly a further £24m in 2021/22.

9.6 A carbon management plan was agreed in September 2021 setting a pathway of a series of annual carbon reduction targets.

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

10.1. In 2020/21 the Council refreshed its 5-year Medium Term Resource Strategy (MTRS) as part of a four-year financial settlement with the Department for Communities and Local Government (DCLG). As part of that, and in setting the 2017/18 budget, the Council has identified several key programmes of transformational activity intended to improve outcomes for its residents and to generate new income streams to replace reduced government funding under its Income Generation strategy. The pandemic has paused any further commercial investments and the move to unitary will happen in 2023.

10.2. Oversight of corporate projects is undertaken by the Senior Leadership Team (SLT), supported with advice from Finance, Legal, HR teams. During 2021/22 the majority of projects were delivered or progressed according to schedule.

10.3. Regular Financial Performance reports and updates are reported to senior Officers and Councillors, including Scrutiny Board. The Business Partners undertake monthly forecasting with Heads of Service and the resulting reports are then reviewed by the S151 Officer. Monthly updates are provided to the Senior Leadership Team with quarterly updates reported publicly through Cabinet.

10.4. The Council has established robust planning and control cycles that cover strategic and operational plans, priorities and targets. The Council actively engages with internal and external stakeholders in determining how services should be delivered. Budgets are prepared in accordance with objectives, strategies and the MTRS.

10.5 The carbon management plan has identified ways the council can make the biggest impact on reducing carbon emissions.

11. E) Developing capacity, including the capacity of the Council's leadership and the individuals within it

11.1. In order to deliver the Council's priorities within a strong governance framework the Council requires a workforce that is appropriately skilled and qualified. Due to the shifting requirements of local government and the changing demands put on the Council, it's essential that the capacity of the Council's workforce is reviewed and updated.

11.2 Many development opportunities have been introduced with many officer given the opportunity to act up and develop skills whilst ensuring there is capacity to delivery the councils statutory services and those required as the LGR progresses, this included officer taking on LGR Lead Roles, appointing another assistance CEO, and upskilling numerous team leaders to take on some Head of Service responsibilities.

11.3 Within the Community Health Service officers completed accreditation courses to enable them to continue to deliver services where legislation has mandated training recently.

11.4 During 2020, we moved all our training offerings to a virtual model. Corporate training delivered included De-escalation Skills which was aimed at frontline staff and these sessions were also attended by some of the Councillor community. We delivered Introduction to Budgeting to those staff with budgetary responsibility and delivered Corporate Governance to new starters.

11.5 Virtual Induction sessions with new starters were run throughout 2021/22. These sessions gave all new starters the opportunity to meet the Council Leader and Chief Executive and hear about the Council priorities. It also gave the opportunity for the new starters to ask questions to these senior leaders and meet other starters.

11.6 Other virtual learning interventions were delivered throughout the year to allow staff to upskill and keep motivation levels. Health and wellbeing interventions were included here.

11.7 Supporting staff through change is key. Virtual workshops were delivered to managers in having engaging conversations with staff and wider workshops for all staff were delivered in understanding and accepting change.

11.

11.8 The Council looks for good practice from other areas and other authorities in order to help improve its leadership and service delivery. Following a management restructure in 2017/18, the Council has invested heavily in staff training across a range of areas included personal/executive coaching, political awareness and TMS profile workshops for both staff and politicians. Management succession planning from an Officer perspective is supported by the rolling programme known as Head of Service Assistants, and from a Member perspective by the continuation of Cabinet Assistants and recently recruited Scrutiny Assistants – fixed terms roles for those interested to gain more experience at senior roles.

11.9 In 2018/19, the Council launched ***Shape our Future***, a joint development programme for Officers and Members. With sessions covering a variety of topics, Shape our Future has allowed Officers and Members to share ideas and learn from each other. The programme has brought the organisation together to consider and agree what sort of council we need and want to be, to set our future values, and define how we are going to achieve our ambitions. The values, developed in consultation with staff and Members, are reflected in the Council's Corporate Plan. During 2021/22 the Council's organisational development programme has continued, with the main emphasis being on supporting the organisation to respond to the challenges of Covid 19 and external change drivers, whilst continuing to deliver high quality services

11.10 The Council will continue to make use of external reviews of its practice to deliver better outcomes. The Council holds Investors in People status and is accredited as a Timewise organisation by The Timewise Foundation.

11.11 Training programmes for Council employees are identified from regular 1- 2- 1's, team meetings, performance coaching reviews, new online induction process and personal development programmes. A Training Needs Assessment is completed annually to inform the corporate training programme and ensure the most effective use of the training budget.

11.12 New Members to the Council receive induction training in key areas (including the Constitution, ethical governance, decision-making processes, and the Council's Code of Members' Conduct). Member training and development has taken place in the last year against the backdrop of the Covid 19 pandemic. This has meant that training has had to take place online and continues to do so. There has been an increase in Members taking up opportunities of individual learning via webinars and courses run by the LGA and other bodies. There have been more Officer briefings to assist Members in gaining the essential knowledge they need and formal training sessions by outside training companies have also been offered.

Member Development Group

The Member Development Group (MDG) comprises of Councillors:
Richard Pinnock (Chair), Alison Barkshire, Adam Boyden, John Greenhalgh, Damon Hooton and Heather Shearer.

Member training and development took place in the last year against the continued backdrop of the Covid 19 pandemic. This meant that training continued to take place virtually by means of online facilities. Members have continued to take up opportunities of individual learning via webinars and courses run by the LGA and other similar bodies. A number of officer briefings were held to assist Members in gaining the essential knowledge they need and formal training sessions by external training providers and organisations were also offered. Members will be aware that briefings have been provided in relation to the Local Government Reorganisation in Somerset.

Member Development Activity during 2021-22

Members have continued to be encouraged to identify training opportunities they were interested in via the Local Government Association (LGA) and other similar organisations.

There have been several Officer led training sessions and briefings over the course of the year. These are detailed in the table below and cover a range of matters including Domestic Abuse, Phosphates and Section 106 Agreements. In addition, Members also received a briefing from Somerset County Council's Gypsy Liaison Team.

As well as showing the Member training and development sessions that have been held during 2021-2022,. Some of the training sessions are still available to Members online.

Significant training was provided to Members in year and are summarised in the table below:

Date	Development Session	Number of Attendees
12.05.21	Planning Board New Member Training	3
24.05.21	Domestic Abuse	15
01.06.21	Addressing increase in Flytipping	1
16.06.21	Introduction to English Planning Reform	8
17.06.21	How to meet UK Climate Targets	1
21.06.21	Institute of Licensing Training (IoL)	1
22.06.21	Newly Elected Councillor	1
Various	Community Connector Training	2
20.07.21/ 20.08.21	Appeals Decision Training	14
27.07.21	Future of Local Government in Somerset (FoLGiS)	21
05.08.21	Affordable Housing and Social Housing	17
24.08.21	Somerset Re-organisation Briefing	22
03.11.21	Energy Performance Certificates and Minimum Energy Efficiency Standards Regulations	9
17.11.21	First Homes	12
07.12.21	Phosphates Training	15
16.12.21	Section 106 and Enforcement Training	7
13.01.22	Planning Refresher	9
26.01.22	Gyspy and Traveller	10
27.01.22	Local Plan Part 2	9
07.04.22	SPD Design and Amenity	5
Various	Somerset Re-organisation updates	

Scrutiny Board Annual Report 2021-22 provides an outline of the work undertaken by Scrutiny Board Members over the course of 2021-22 municipal year.

In terms of scrutiny Board training has been progressed via the coffee session approach with being able to discuss development of the board and its focus. The Council did a piece of work to get on paper their concerns and aspirations for the Scrutiny, we then looked at the realities of what Scrutiny actually had power to do and started to pull out areas that they felt they wanted to focus on. At further meetings these thoughts were developed and looked at how they prioritised and articulated what they wanted to do. This was then fed into the Scrutiny workplan which became large,r but meant that the Board felt that they had more input.

Work was also done with Scrutiny on using the forward plan effectively and how to ensure appropriate scrutiny takes place. This saw the board looking at items on the Forward Plan and assessing where appropriate scrutiny might take place by some other group (e.g., Members Equality Group looking at the Equalities Priorities and Plan) and so not require them to look at it, thus allowing them to focus on other areas.

Monitoring and evaluation of course comes via the quarterly reporting. As an example, the new Corporate Delivery Plan the challenge to Cabinet was that they would not be able to resource delivery in light of Local Government Reform (LGR). Cabinet's response was that they recognised the demand from LGR would rise but considered the reduced plan could be met and they had budgeted for additional costs of implementation, they would however monitor the matter regularly. The quarterly performance reports now map the progress of the Delivery Plan and are scrutinised by Scrutiny, Cabinet members meet with SLT monthly to keep up to date on the impacts of LGR on delivery to be able to make adjustments where required.

In summary all staff and all Councillors are offered training and or coaching, with any agreed professional memberships reimbursed to staff.

11.6. The Council was re-assessed in 2021 and gained the Investors in People accreditation for a further 3 years. It also gained Disability Confident Employer in 2022. This accreditation demonstrates the Council's commitment to employing and supporting a diverse workforce. The Council is sharing best practise such as the Timewise Accreditation with the Somerset District Councils and the County Council and working towards how that can support employees in the new Council. Ongoing training for Council staff for their work tasks and providing support in change and wellbeing practises.

11.7. The Council must position itself to deal with the impact of changes in national policy and legislation. Such changes could be resource hungry and to this end the Council has maintained a robust level of general balances and earmarked funds for both corporate capacity issues. These reserves along with the revenue contingency budget provide financial resilience for the organisation.

11.8. We continue to work with SWAP to ensure that the Council has taken the steps necessary to reduce the risk of non-compliance with the regulation.

11.9. Working in partnerships is increasingly important to the Council and is used as an additional method of improving and growing the skills base for delivering the Council's objectives.

12. F) Managing risks and performance through robust internal controls and strong public financial management

12.1. Performance management is a key component of the Council's approach to achieving its stated outcomes. Part of this process involves identifying and, where appropriate, mitigating risks, ensuring that performance and risk management processes are in place throughout the organisation with additional rigorous processes to ensure sound financial management.

12.2. The Council has in place a performance management framework which covers performance against corporate priority objectives and service level performance. Each corporate priority, as set out in the Corporate Plan has a number of supporting objectives which in turn translate into projects and service level actions.

12.3. The Council reports publicly on performance against objectives through quarterly reports to Scrutiny and Cabinet. The reports also include a number of metrics including Freedom of Information requests and HR data. There is also a summary of financial data and work is underway to align the objectives of the emerging new Corporate Strategy more closely with the MTFP. At a service level, each group has in place a business plan and regularly reports on performance against this plan to relevant Portfolio Holders. We have re-established the Corporate Risk Management Group and the vice chair of Audit Committee attends this group.

12.4. There are quarterly budget monitoring updates to Councillors, via Cabinet, and monthly updates highlighting any significant variances to senior Officers. Group Mangers produce monthly revised forecasts and any issues are highlighted on the corporate summary. Any identified potential under or overspends, were flagged and appropriate action was taken where required. This year effective management meant that a small surplus was delivered by year end. The issues relating to the Council's longer-term financial position are recorded in the Corporate Risk Register.

12.5. The Council also undertook robust scrutiny of the 2021/22 budget, and this was set at Full Council in February 2021.

12.6. Managing risks is the responsibility of the whole organisation. Risk management is the process of identifying significant risks to the achievement of the Council's strategic and operational objectives, evaluating their potential consequences and implementing the most effective way of mitigating them. The aim is to reduce the frequency of risk events occurring (where possible) and minimise the severity of their consequences if they do occur. It is also about considering opportunities (positive risks) as well as negative risks (threats) and using these to assist innovation in Council services. High level risks are included on the Strategic Risk Register with the register reviewed on a quarterly basis by Group Managers, the Senior Leadership team and the Corporate Governance Group ahead of the Audit Committee.

12.7. Whereas the management of lower level risks are recorded and monitored by services at various levels in the organisation, including by the Group Managers.

12.8. Each service area and project holds its own risk register which define the risks related to their service areas and assign individuals to be responsible for their management. All services risks are scored on the same basis of likelihood and impact and high scoring service risks are escalated, through a set policy, to Corporate Management Team for consideration of whether they should be included on the Strategic risk register.

12.9. Service risks that are high scoring or appear on, or are referenced on, the strategic risk register require a greater focus on mitigating action planning with those actions assigned a time scale and an owner. The Council recognises that in order to seize opportunities and make successful changes some risk is inevitable and must be effectively managed.

12.10. There were 2 new risks SR 60 & SR 61 added to the strategic risk register and 4 risks, SRs :37,49,55, and 58 were closed in 2021/22

- **SR36 Long term financial planning** –Failure to deliver a balanced and sustainable long-term financial plan will put at risk future public service delivery to the residents of Mendip district. While this would affect all residents, it will have the biggest impact on the vulnerable

- SR50 **Inability to plan and deliver strategically and operationally** due to rapidly changing national political legislative, economic, and fiscal uncertainties and drivers leading to failed delivery of business plans and corporate priorities."
- **SR52 A failure by the Council, working in conjunction with its partners, to provide an adequate local response** to civil emergencies such as Grenfell and pandemics could impact public safety and service provision, as well as having legislative and reputational implications."

- **SR53**
  Failure of a contractor within our main business services to deliver all their contractual obligations or cease to trade leading to the Council being unable to secure or deliver ongoing provision of key frontline services, potentially impacting on more vulnerable customers and the council's reputation."

- **SR59 As a result of a lack of: resource, technical knowledge, adequate cyber security measures and training and awareness for staff and members, the council is unable to detect and protect from threats to internet connected systems which could include hardware, software and data from cyber-attacks**.

- **SR41 Due to external factors, including local government reorganisation and transition, the Council is unable to retain, sustain or recruit the appropriate skilled resource, professional expertise, and sufficient staff capacity**. This would result in a negative impact on service delivery, and the ability to deliver priority outcomes.

- **SR42** (recommended to close) **Due to failure to implement and mainstream good Information Governance (IG) across the organisation,** as well as with elected members, key partners and third-party suppliers, there is an increased risk of breaches in data protection and other critical information management issues, which can lead to investigation by the Information Commissioner Office, fines, and significant reputational damage. This includes significant changes to data protection legislation under the GDPR, which came into effect in May 2018.

- **SR60** (Recommended to close) A **failure to deliver waste collection services to our customers** due to waste contractor Suez ability to meet contractual arrangements, such as HGV resource and recruitment, resulting in reduction in waste collections (refuse, recycling, and garden) across the district and causing reputational damage.

- **SR61** Due to a range of external factors, including a lack of government policies & different timescales for achieving net zero (2050 nationally vs 2030 locally), as well as limitations in the scope of influence of Council activity on the wider climate and ecological emergency, **the council is unable to meet its commitment to net zero carbon emissions by 2030**. This would result in an increase in negative climate and ecological effects across the district

12.11. The MTFP is reviewed and updated on a regular basis to ensure the S151 Officer, Senior Leadership Team and Members are aware of the financial standing of the authority in terms of delivering against cost reduction or revenue raising targets. Performance against budget is reported to Cabinet on a quarterly basis with monthly updates on issues and any significant variances explained.

12.12. Risks are identified when undertaking Internal Audit reviews and reported when necessary. A risk-based Audit Plan is drafted annually following consultation with Officers, Members and the S151 Officer. The Audit Plan is approved at Audit Committee prior to the financial year.

12.13. Organisational performance against the authority's corporate strategy objectives is reviewed by the Senior Leadership Team and by the Scrutiny Board on a quarterly basis and reported to Cabinet.

13. Implementing good practises in transparency reporting and audit to deliver effective accountability

13.1. A Forward Plan is prepared giving details of all the Key Decisions likely to be taken by the Cabinet or other decision-making body's over at least the next four months, and where reasonably practicable, over a period of twelve months. This will be updated on a monthly basis, with a new Forward Plan being produced at least 14 days before the start of the period which it covers. The current plan will be included as an agenda item for information at each meeting of Cabinet.

13.2. Regulation 8 of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 defines a key decision as an executive decision which is likely:

to result in the relevant local authority incurring expenditure which is, or the making of savings which are, significant having regard to the relevant local authority's budget for the service or function to which the decision relates;

Or

be significant in terms of its effects on communities living or working in an area comprising two or more wards or electoral divisions in the area of the relevant local authority.

13.3. The Council has decided that the relevant threshold at or above which the decision is significant will be £100,000 for capital / revenue expenditure or savings.

13.4. The Council aims to ensure that its decision-making reports are written, presented and communicated to the public and other stakeholders in a fair, balanced and easily comprehensible style, appropriate to the intended audience. This includes providing the required level of detail and information to ensure transparency and to enhance public scrutiny

13.5. Performance and financial information are prepared in a consistent and timely basis and the statements allow for comparison with other similar organisations.

13.6. The Council's S151 Officer or Chief Finance Officer has a statutory duty to ensure that the Council has a strong financial control environment, including an effective and independent Internal Audit function. The MTFP is reviewed and updated on regular basis to ensure the S151 Officer, Senior Leadership Team and Members are aware of the financial standing of the authority in terms of delivering against cost reduction or revenue raising targets. Performance against budget is reported to Cabinet and any significant variances explained. In 2020/21 an internal audit schedule that focussed on areas of risks identified by services along with those identified by SWAP themselves using its wider partnership connections was agreed. Audit findings, including any significant risks, along with the agreed management action were reported to Audit Committee who in turn ensure recommendations are acted upon. Internal Audit recommendations are followed-up and reported to Audit Committee, further follow-up is planned if recommendations haven't been actioned in full. Audit reports once completed are discussed with the S151 Officer and service manager as appropriate. Executive summaries, including findings, and progress on the Annual Plan are reported to Audit Committee, on a quarterly basis.

13.7. For 2021/22 there were 18 completed SWAP audits, 1 in draft and 1 in progress (with outstanding actions reported to Audit Committee). In respect of the limited assurance Audits further detail isprovided below:

Third party back up and disaster recovery Audit

The concerns on ambiguities over responsibilities in terms of third party back up and disaster recovery between 5c client team and capita is resolved by the transfer of IT from Capita to Somerset

Formatted: Font: Bold

Formatted: Indent: First line: 0 cm

IT .The work on Management and Tactical plans was paused pending the transition from Capita to Somerset IT and will be taken forward by the new Unitary Council.

Re accident investigating and reporting Audit

Each of the principal 3 concerns in respect of a central record recording of incidents ,regular risk assessments and accident and incident policy and reporting were addressed .The follow up audit provided assurance to the relevant S151 Officer, Management Team and Audit Committee, that the agreed actions to mitigate risk exposure have been implemented and as a result the Audit risks were then agreed to be closed by Audit Committee in 2022/23.

Formatted: Font: Bold

Formatted: Font: Bold

– SWAP report that on the balance of their 2021/22 audit work for Mendip District Council, they are able to offer a **Reasonable Assurance** opinion in respect of the areas reviewed during the year.

13.8. The External Audit Opinion for 2021/22 will be an unqualified audit opinion. ~~(TBC~~

Formatted: Not Highlight

13.9. Internal and External Audit reports once completed are discussed with the service manager. Executive summaries, including findings, and progress on the Annual Plan are reported to Audit Committee, on a quarterly basis. Recommendations made in audit reports are followed up 6 months after the completion of the audit and findings reported to Audit Committee.

13.10. External Audit recommendations are reported to Audit Committee, following the completion of their annual audit process. Follow-ups of recommendations are also reported. Internal Audit processes ensure compliance with Public Sector Internal Auditing Standards.

13.11 The Council monitors the implementation of external audit recommendations. Assurance reports are regularly presented to Audit Committee and Ernst and Young summarises the Council's performance in implementing recommendations effectively and within agreed timescales. However, progress is also monitored through other relevant Committees and Scrutiny functions. The latest Outstanding Audit Recommendations Report will be taken to Audit Committee on 3 August 2022.

Formal reports by S151 or Monitoring Officer	None issued
Outcomes from Standards Committee or Monitoring Officer investigations	There have been no formal Monitoring Officer or Standards Committee investigations during the year

Proven frauds carried out by Councillors or members of staff	None in 2021/22
Objections received from local electors	None as yet but draft Accounts /AGS are not published until August
Local Government Ombudsman referrals Upheld	3
Internal audit reports	No high risk areas identified.

In conclusion Mendip District Council will continue to implement good practice as part of the next annual review in 2022/23.

14. Significant governance issues

There has been a significant impact on council services staff and finances as a result of the Covid 19 pandemic from March 2020 and the LGR reorganisation. The narrative in the Statement of Accounts goes into more detail in this area. The response to the crisis has added assurance to the effectiveness of the Council's business continuity plans, IT networks resilience, communications strategy and governance. Despite the many challenges, the Council has maintained consistent essential services for residents, whilst adapting to provide alternative virtual services wherever possible.

In addition to the specific areas highlighted through the audit process, there were some issues highlighted in prior years that were likely to impact on the Council's governance arrangements and therefore were included in the relevant AGS. These actions along with the new actions for 2021/22 and current progress are listed below. Any key actions not complete will stay in future AGS and continue to be monitored.

Page 470

14.1. Ongoing Issues/Projects identified

Issue/Project	Owner	Progress	Risk	Action
Local Plan	T Aarons	In Progress	The changes to the National Planning Policy Framework mean that the Council must increase the number of homes it must build each year. The number proposed is well beyond current delivery levels and means that, from December 2019, the council no longer has a five-year housing supply. This means the Council is now determining housing applications in accordance with the 'presumption in favour' set out in national policy, including speculative applications outside Local Plan Part I and II. The Council also faces new requirements regarding the Local Planning Process under the changes, including a requirement that no plan should be more than five years old, which will place additional pressures on it to review the way it plans and the work it carries out to support the delivery of homes. The policy places a responsibility on the Council to get homes built without giving it any mechanisms to influence the way that developers deliver. This places it at risk of failing to deliver and being penalised by government. Local Plan Part II underwent external examination with PINS in the summer of 2019. From this more housing sites were required to be found. A period of work was undertaken to put more sites forward and these new	Mendip will continue to monitor the new NPPF and the housing delivery on the ground and will develop an action plan based on the final changes directed by Government. Local Plan Part II and the new Single Plan Local Plan review will be worked on alongside each other.

			sites were consulted on in early 2020 and will now be discussed further at external examination with PINS in September 2020. Cabinet adopted Local Plan part 2 in December 2021, following the further review by PINS .	
5 Councils	R Bates	Commercial Renegotiations	There remain significant financial and operational aspects of the Capita contract that need to be addressed together with a review of all options in respect of the best future operating model/s for 5C Partnership and Mendip. It is anticipated that further negotiations on some of the remaining services within the contract will continue in 2021/22 including: Customer services.	Commercial negotiations and sharing of information continue The Council will review its best operating model in the light of the change to a Unitary Council. We will review the 5c Contract (along with all contracts utilising procurement assistance) and consider any necessary change utilising cost benefit analysis
5 Councils	R Bates	Update Working towards transition	Resource is still required to ensure where appropriate that the council transitions smoothly to the new service Target Operating Models (T.O.M) for services that remain with Capita ; or to explore and cost alternative arrangements following further detailed negotiations with Capita and to establish new T.O.M's for any service that transfers' in house' e.g. Exchequer. This has resulted in delays in implementing strategic options for the delivery of good quality services and integrate services focused on client groups to improve customer experience and reduce duplication.	The first year of in-sourced Accountancy function went well as evidenced by both Mendip and Hart producing timely unqualified Statements of Accounts. By comparison around 50% of Councils missed the statutory deadline for 2019/20 Statement of Accounts

				Commercial negotiations will continue in 2022/23 with a focus on IT services which will run concurrently to a revised T.O.M roadmap for all services covered by the contract. Lessons were learnt from implementations of other services and a realistic project plan will be implemented, including regular updates with risks monitored and corrective actions taken where necessary.
Politics	S Brown	Ongoing	Change in political make up both at national and local levels within Somerset County, inevitably leads to adjusted aims and priorities. It is key that work continues to engage with partners to ensure relationships are not damaged and the direction of travel is not adversely affected. .	The impact of Unitary will be far reaching in all areas including, new Political and services & staff structures, roles responsibilities. Although much work was done in preparing the stronger Somerset business case inevitably there will be associated strengths, weaknesses, risks and opportunities from the decisions made to create the new unitary. On the financial

				side includes data collection and plans for funding packages, balance sheet, assets and system issues. During 2021/22 & 2022/23 a significant amount of work for staff (assuming retention is not an issue) with the other Somerset councils. The new authority will be required to be delivered on a very tight timescale, whilst maintaining existing services.
As highlighted in the last statement Business Rates Retention / Funding Reform In addition, from the last quarter of 2019/20 we have the Impact of Covid 19	SLT	In Progress	The Fair Funding review was established to set a new baseline funding allocation for local authorities based on up-to-date needs and resources .The council plays an active part in feeding into such national working groups as in the case of Fair Funding. The government have delayed the review of relative needs and resource and the 75% business rates retention will no longer be implemented in 2021/22 to allow councils to focus on meeting the immediate public health challenge posed by the pandemic. Linked to the fair funding review, a reset of the baseline has been expected for some time. This would remove the historic growth that Councils have received through the sharing of business rate growth since the introduction of the Business Rates Retention Scheme.	The Council has sought expert advice and as information becomes available will reflect the impacts in the MTFP of any baseline reset and its negative financial impacts. Due to the delays in the reforms any change will be issues for the new Council. The Council was in a successful pool in 2021/22 and is continuing in the pool for 2022/23.

			Currently 50% of growth has been retained by Councils and the rest by the government. The impact of the final scheme if it removes the growth income may cause additional budgetary pressure on the new Unitary Council.	
Shape Housing Company	T Aarons	In Progress	The Housing Company was essentially dormant in 2021/22 with loan agreement to be finalised.	Once the loan is drawn down by the Housing company then the outstanding invoices to Mendip will be
Review in light of impact of Covid 19 the Commercial Strategy, especially in relation to Commercial Acquisitions	R Bates	In Progress	As stated in 2018/19 there is financial risk due to any market decline, tenant default or unexpected maintenance / dilapidations not recoverable from the tenant post purchase. As stated in 2019/20 there was significant market turmoil from the impact of Covid 19 and given the high levels of uncertainty. The Council's investment properties income from tenants stood up well in these challenging times as tenants continued to pay nearly all due rent monies. Some arrangements were necessary with Leisure centre given the impact of restrictions on their business. As the purchases will be funded by borrowing, recognising the need to adhere to revised prudential indicators and statutory guidance for reporting on Investments and associated Minimum Revenue	The Council has adopted strict criteria when purchasing Investments to reduce the risk of default and is assisted and guided by its advisers on the opportunities and quality of its Investments. Credit checks are run yearly on existing tenants and pre purchase on any proposed new tenants. The situation with existing tenants is being closely monitored by the property team and S151 Officer. . Any devaluation (now reported in the Treasury Management Strategy for commercial properties) /rent

Page 475

			Provision (MRP). The revised MRP policy provides a prudent mechanism to repay the debts. Key changes to the Prudential and Treasury Management Codes – Authorities are not permitted to borrow primarily for financial return. Authorities are not required to sell current commercial investments, however, should determine exit viability for commercial investments in lieu of taking borrowing. Minimum revenue provision (MRP) changes – From April 2023, an authority must not reduce its MRP by using capital receipts instead of making a prudent charge to the revenue account via Regulation 23 (use of capital receipts) and must not exclude portions of their debt from the MRP determination. It is possible for schemes that meet Council objectives and relate to Housing and possibly green energy in district then PWLB funding may still be available, and advice was sought from our treasury advisers.	issues from the impacts of Covid 19 will be a concern, although property is a long-term investment so the outcome will depend on severity and length of any economic downturn and the resulting state of the property market. Link Asset Services advice is sought on other alternative potential lenders, length and types of loans. The Council has appointed Carter Jonas as its green energy investment advisers to promote Mendip's green agenda
Strategic Developments	R Bates	In Progress	Strategic developments are for the benefit of the community and the timescale long to completion; therefore, the financial risk is that returns will be lower, and funding is tied up. Therefore, there is an opportunity cost as the money spent will not be available to invest for a commercial return e.g. purchase of additional Investment properties	The Council balances economic and non-economic benefits and will weigh up all factors to provide the best overall outcome. At present the Council has sufficient funds via its reserves, internal and external

			Development itself is inherently risky and will require close co-operation with external partners and internal resource to oversee the developments.	borrowing, but this will be monitored, and options provided in the event of any conflict. Any decision on best use of resources will take account of cost and benefit analysis and the potential s24 requirements to protect the interests of the new Unitary Council
The Council is less reliant on Capita going forward as more services were / will be insourced. However, some key functions such as IT, revs and benefits and Customer Services remain with Capita. Therefore, the issue of Failure of a main business services support contractor	SLT	In Progress	It is acknowledged that if contractors fail, it would require the deployment of a significant amount of the Council's resource to address. Due to the significance of this risk it is proposed that, whilst it is linked to SR42 'failure to implement and mainstream good Information Governance (IG) and Information Management (IM)', it merits inclusion on the Strategic Risk Register in its own right. The Council is seeking further updates and clarification in respect of the Contractor's latest Business Continuity /Disaster Plan.	Along with other Local authorities the Council is working with LGA to better understand the Contractors position and consider options should they be necessary. The Council is developing its supplier resilience and is concentrating on key suppliers using SWAP designed template to assist in identifying and mitigating the risks The share price of the main contractor is actively monitored, and the risk register includes a section specifically on this area.

remains. So, the risk is the Council is unable to secure ongoing provision of key frontline services Core contractor				The new Unitary Council will mean all contracts will be reviewed, especially in the light of Somerset having its own it network
Impact of Other partner Public sector organisations Financial pressures	SLT	In Progress	There are financial risks due to financial difficulties at other public sector and partner organisations some of whom have already had to use unallocated reserves to fund services.	The Council works with and in some instances relies on other Partner Public Sector institutions whose budget constraints may mean they review the services they are able to provide. This in turn may mean the Public sectors' partners are unable to fund work such as Strategic and other infrastructure projects.
Review the Council's Corporate Plan and MTFP in light of the implications of the Covid 19	R Bates	In Progress	Review potential impacts on the Corporate Plan of Covid19 In addition to review and revise the MTFP for impacts of the delay in Fair funding, rates reform and the financial consequences of Covid 19. In so doing the Council will model (accepting a high degree of	The MTFP has been updated with the best available information to reflect the impact of Covid 19 and the S151 Officer has reviewed the Council's reserves and balances which are confirmed

Page 477

Pandemic to confirm sufficient reserves and that the Council demonstrates a going concern basis			uncertainty) the possible financial consequences of the reduction in income and additional expenditure from the pandemic over 2021/22 and into future years. Government has not pre-announced any future financial settlement for 2022/23, nor any Spending Review for the course of public finances as a whole for after 31 March 2022. Changes are still anticipated to arise for local authority funding from the overhaul of the business rate retention scheme which funds a major part of all local authority income as well as the Fair Funding Review, which is the mechanism that will be applied to balance the respective relative need to spend of each authority, based on various demographic and geographical factors. The long-awaited green paper on funding for Adult Social Care is also still to be published The S151 Officer has reviewed cash flow and the level of Council reserves from scenario modelling.	as sufficient in the s151's going concern report. From April 2023 this will be relevant only to the new Council's finances. However, there remains a degree of uncertainty as to long term financial and social impacts of Covid 19. The outcome will depend on how quickly the economy recovers and will be linked to the ability to control and treat any further outbreaks of Covid 19.
Review the	David Clark Sara Skirton	In Progress		
The IT Programme for 2021/22	R Bates	In Progress	The IT Programme of project in 2021/2022 focussed on a migration to the Cloud for application hosting, improved security posture and continued improvement to access to services for customers. These included: • 4 cloud migration projects of which	With the Unitary decision in Q2 in 2021/2022 some IT projects have been closed as there was no longer a return on investment and resource was realigned to focus on the delivery of Unitary outcomes

			○ 3 of the projects included migrating and upgrading applications from on premise to Software as a Service (SaaS) ○ 1 project to migrate several applications hosted on premise to Capita Cloud environment • Implementation of multifactor authentication for all users • Implementation of voice recognition / automated switchboard	
New Issues Projects for 2021 22				
LGR Unitary	SLT	In progress	**Local Government Reorganisation (LGR)** With the announcement by Government last year of its intention to create a new unitary Council in Somerset from 1st April 2023, the five councils in Somerset found themselves working to a fixed timeline to deliver the necessary structure to provide a service to the residents of Somerset by that date, to hold elections for that new organisation on 5th May 2022, to fund the work to create the new organisation and to continue to delivery existing services up until that point. The Chief Executive attended Scrutiny to discuss the implications of this and has also provided monthly briefing to all Members on progress. Scrutiny Board has also received financial updates as part of the S151s reporting to the Board and a paper covering the proposals to form a joint Scrutiny Board, with	Balancing the need to deliver Business as usual including the revised corporate directives which reflect the reality of the Council no longer existing from April 2023.The workstreams will step up in intensity and commitments during 2022 23and there is a risk that the uncertainty caused by the re organisation may lead to an exodus of skilled staff which will impact the delivery from the LGR workstreams and a reliance on temporary staff

			representation from all councils, to ensure appropriate checks and balances to the work carried out by the agreed Joint Implementation Board.	

Page 480

Mendip District Council
Audit results report

Year ended 31 March 2022

September 2023

20 September 2023

Members of the Audit Committee

Somerset Council
County Hall
Taunton
TA1 4DY

Dear Audit Committee Members

2021/22 Audit Results Report

We are pleased to attach our audit results report for Mendip District Council, summarising the status of our audit for the forthcoming meeting of the Audit Committee.

The audit is designed to express an opinion on the 2022 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on Mendip District Council's accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process.

This report is intended solely for the information and use of the Audit Committee, other members of the Council and senior management. It is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 28 September 2023.

Yours faithfully

Kevin Suter

Partner

For and on behalf of Ernst & Young LLP

Encl

Contents

Page 483

Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/).The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The “Terms of Appointment and further guidance (updated July 2021)” issued by the PSAA (https://www.psaa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/) sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee members and management of Somerset Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of Somerset Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee members and management of Somerset Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Executive Summary

Executive Summary

Scope update

In our audit planning report presented at the 20 October 2022 Mendip District Council Audit Committee meeting, we provided the Committee with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following amendments:

- Additional work performed on IAS 19 Pensions Liability

As the audit remained open as at 31/3/2023, additional information became available in regards to the IAS 19 Pensions Liability based on Somerset Pension Fund's Triennial Valuation. In order to confirm the impact on the Pensions figures from the triennial valuation, we requested to obtain an updated version of the IAS 19 report from the actuary. We engaged with our EY Pensions specialist to evaluate the reasonableness of the Pension Fund actuary's gross liability calculations. We also tested membership data at the pension fund level. As the movements between the original and updated IAS19 reports were material, management agreed to amend the pension liability figures in the accounts.

Status of the audit

We have substantially completed our audit of Mendip District Council's financial statements for the year ended 31/3/2022 and have performed the procedures outlined in our Audit Planning Report. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Council's financial statements, in the form which appears at Section 3:

- Review of the updated 2021/22 accounts following requested audit amendments
- Manager and Partner Review of Pensions Liability testing and Journal Entry Testing
- Consultation with our Professional Practice Directorate (PPD) on the Emphasis of Matter wording in our Audit Report in regards to the Going Concern note
- Receipt of the Management Letter of Representation (to be sent to management when the audit is completed)
- Receipt of the final, approved and signed, accounts and Annual Governance Statement.
- Completion of audit procedures to assess potential events after the balance sheet date, up to the date of signing the audit report.
- Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission

We propose to include within our audit report an Emphasis of Matter, drawing the reader's attention to the disclosures concerning the local government reorganisation within Somerset, and that Mendip DC no longer exists as an entity. This is not a qualification of our opinion.

Executive Summary

Auditor responsibilities under the Code of Audit Practice 2020

Under the Code of Audit Practice 2020 we are required to consider whether the Council has put in place ‘proper arrangements’ to secure economy, efficiency and effectiveness on its use of resources. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

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

Status of the audit – Value for Money

In the Audit Plan, we reported that we were yet to finalise our value for money (VFM) risk assessment. We have now completed this work and have not identified any risk of significant weakness against the three reporting criteria we are required to consider under the NAO’s 2020 Code. As a result, we have completed our planned VFM procedures and have no matters to report by exception in the auditor’s report (see Section 03).

We plan to issue the VFM commentary as part of issuing the Auditor’s Annual Report.

Executive Summary

Audit differences

During the audit we have identified a few misstatements that have been discussed with management. Some of these have been adjusted for in the updated Statement of Accounts, but a number remain uncorrected based on materiality. We also note that there have been a number of suggested amends to disclosures.

Further details can be found in Section 4 Audit Differences.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to report as a result of this work.

We are still to complete the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission, this will be performed at the completion of the audit.

We have no other matters to report.

Executive Summary

Areas of audit focus

In our Audit Plan we identified a number of key areas of focus for our audit of the financial report of Mendip District Council. This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is summarised within the "Areas of Audit Focus" section of this report.

Fraud Risk: Misstatements due to fraud or error

- Work in this area is complete, subject to manager and partner review – currently no matters to report.

Fraud Risk: Risk of fraud in revenue and expenditure recognition – inappropriate capitalisation of revenue expenditure

- Work in this area is complete – no matters to report.

Significant risk: Valuation of Investment Properties

- Work in this area is complete – no matters to report.

Other Area of Audit Focus: Valuation of Property, Plant and Equipment (PPE)

- Work in this area is complete – one difference identified following review from EY Real Estates, relating to Sharpham Building. Difference partially corrected resulting in remaining uncorrected difference of:
    - Sharpham Building Asset value (Overstated) £688k

Other Area of Audit Focus: Pension Liability Valuation

- Work in this area is complete subject manager and partner review – the Pensions Liability note has been fully updated to reflect the updated IAS 19 report from the Actuary.

Other Area of Audit Focus: Accounting for Covid-19 grants

- Work in this area is complete – no matters to report.

We request that you review these and other matters set out in this report to ensure:

- There are no residual further considerations or matters that could impact these issues
- You concur with the resolution of the issue
- There are no further significant issues you are aware of to be considered before the financial report is finalised

There are no matters, other than those reported by management or disclosed in this report, which we believe should be brought to the attention of the Council or Management.

Executive Summary

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

Based on our work performed to date we have made the following control observations.

- Related Party Transactions – In order to appropriately report related party transactions in the financial statements, we expect the Council to maintain an up to date register of interests. This is achieved through members and senior officers submitting their declaration of interests annually. During our testing we noted several instances of members not providing a submission in 2021/22, although it is noted the majority of members have made a timely submission. While we have been able to obtain alternative evidence to satisfy ourselves the Related Parties Transactions note is accurate, in future years we request that annual submissions are completed in all cases. Prior to a member/senior officer leaving the Council mid year, their submission should be obtained prior to their departure.

Independence

Please refer to Section 9 for our update on Independence.

02 Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We identify and respond to this fraud risk on every audit engagement.

Significant Risk

What judgements are we focused on?

Our assessment of risk led us to create a series of criteria for the testing of journals, focusing specifically on areas that could be open to management manipulation. We have also focused specifically on capitalisation of assets as a potential area of manipulation, which is recorded as a separately identified Significant risk - Inappropriate capitalisation of revenue expenditure

What did we do?

We carried out the following procedures:

- Identified fraud risks during the planning stages.
- Inquired of management about risks of fraud and the controls put in place to address those risks
- Understood the oversight given by those charged with governance of management's processes over fraud.
- Considered the effectiveness of management's controls designed to address the risk of fraud.
- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements
- Assessed accounting estimates for evidence of management bias, and
- Evaluated the business rationale for significant unusual transactions.

What are our conclusions?

This area is subject to final manager and partner review at the time of writing this report. However, our audit work to date has not identified any of the following:

- any material weaknesses in controls or evidence of material management override.
- any instances of inappropriate judgements being applied, or of any management bias.
- any transactions during our audit which appeared unusual or outside the Council's normal course of business.
- any inappropriate journal entries

Significant risk

Risk of fraud in revenue recognition - inappropriate capitalisation of revenue expenditure

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

From our risk assessment, we have assessed that the risk manifests itself through the potential to inappropriately capitalise revenue expenditure to improve the financial position of the general fund.

Capitalised revenue expenditure can be funded through borrowing with only minimal MRP charges recorded in the general fund, deferring the expenditure for 30+ years when the borrowing is repaid. Alternately, other sources such as capital receipts or grants could be inappropriately used to finance the expenditure.

Inappropriate classification of revenue expenditure as REFCUS (revenue expenditure funded by capital under statute) could also have the same impact, incorrectly removing the spend from the general fund through applying statutory overrides.

Significant Risk

What did we do?

Our approach focused on the following:

- We identified the full list of transactions being capitalised from the data in order to identify any postings which were outside the Council's normal capitalisation process.
- We selected a sample of PPE additions to test and confirm the item was appropriate to capitalise as per IAS 16 through agreement to evidence such as invoices and capital expenditure authorisations.
- We selected a sample of REFCUS items to test to confirm the appropriateness of the classification of these items

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

We tested a sample of PPE additions and confirmed they met the capitalisation requirements under IAS16.

We tested a sample of REFCUS items and confirmed they were appropriately classified.

We have not identified any instances of inappropriate judgements being applied.

Significant risk

Valuation of Investment Properties

What is the risk?

The fair value of Investment Property (IP) represents significant balances in the Council's accounts and are subject to valuation changes and impairment reviews. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet which triggers the use of experts by management and EY likewise. Although the economic conditions may now be considered more stable, there are still uncertainties with regards to valuations impacting Investment Properties, which are held at Fair Value. Therefore, this remains as an area of significant risk for FY 2021/22.

Significant Risk

What judgements did we focus on?

We focused on the following:

- The reasonableness of the underlying assumptions used by the Council's expert – Capita, including key assumptions of:
  - Yields
  - Future forecast income
  - Asset condition

- Ensuring the information supplied to the valuer in relation to Mendip District Council was complete and accurate
- Ensuring the accounting entries and disclosures made in the financial statements were consistent with the report from Capita.

Areas of Audit Focus

Significant risk

What did we do?

We have:

- Considered the work performed by the Council’s valuer, this included a review of the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample tested key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre, or assessing comparative market information);
- Tested a sample of assets revalued in year to:
    - Challenge the assumptions used by the Council’s valuers by reference to external evidence and our EY valuation specialists (where necessary);
    - Test journals for the valuation adjustments to confirm that they have been accurately processed in the financial statements;
- Instructed our own Property valuation team (EY Real Estates) to review a sample of FV valuations performed by the Council’s Valuer;
- Confirmed that all Investment Property assets were revalued in year as per Code requirements; and
- Tested accounting entries have been correctly processed in the financial statements

What are our conclusions?

Our work in this area is complete.
We confirmed the scope of the work performed and professional capabilities of the valuer were reasonable and appropriate.
From our sample testing by both the local team and our EY Real Estates team, we did not identify any uncorrected differences or material corrected differences.

All Investment property assets were confirmed to be revalued in year, with appropriate accounting entries and disclosures made in the financial statements, with only minor disclosure amendments requested.

Other areas of audit focus

Valuation of Property Plant and Equipment

What is the risk?

The value of DRC and EUV assets represents a significant balance in the Council's accounts and it is subject to revaluation changes and impairment reviews.

Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

DRC and EUV assets are subject to regular review by the external valuers – Capita.

Valuation of these assets involves higher risk estimates due to the significant assumptions and judgments involved in their valuation, which triggers the use of experts by management and EY (where necessary). These estimates give scope for higher inherent risk in this area of accounts therefore we have identified PPE as an area of focus.

What judgements did we focus on?

We focused on the following:

- The reasonableness of the underlying assumptions used by the Council's expert – Capita, including key assumptions of:
    - Yields
    - Future forecast income
    - Building cost rates
    - Asset condition

- Ensuring the information supplied to the valuer in relation to Mendip District Council was complete and accurate
- Ensuring the accounting entries and disclosures made in the financial statements were consistent with the report from Capita.

Other areas of audit focus

What did we do?	What are our conclusions?
We have: • Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; • Sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre) and challenge the key assumptions used by the valuers; • Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE. We will also consider if there are any specific changes to assets that have occurred and whether these have been communicated to the valuers; • Reviewed PPE assets not subject to valuation in 2021/22 to confirm that the remaining asset base is not materially misstated; • Considered the potential impact of current economic conditions on valuation uncertainties; • Considered changes to useful economic lives as a result of the most recent valuation; and • Tested to confirm that accounting entries have been correctly processed in the financial statements.	Our work in this area is complete. We confirmed the scope of the work performed and professional capabilities of the valuer were reasonable and appropriate. From our sample testing by both the local team and our EY Real Estates team, we identified 1 difference in regards to the valuation of the Sharpham Building (Council Offices). This was due to two elements: • The valuer included a special payment arrangement with Somerset County Council in the valuation, which was not considered to be standard lease arrangement. • The yield rate applied by the valuer was considered to be too low, resulting in an overstatement of value of the asset. Following discussion with management, they agreed to correct for the special payment arrangement, but not correct the yield. This resulted in an uncorrected judgemental difference of £688k. No other differences identified in our sample testing. All assets were confirmed to be within the 5 year revaluation cycle. Assets not subject to revaluation in year were confirmed to not be materially misstated. No issues were identified with useful economic lives or any material valuation uncertainties. Appropriate accounting entries and disclosures made in the financial statements, with only minor disclosure amendments requested.

Other areas of audit focus

Pension Liability Valuation

What is the risk?

The Code of Practice on Local Authority Accounting and IAS19 require the Authority to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is a scheduled body.

The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the administering body. Accounting for this scheme involves significant estimation and judgement.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

What judgements are we focused on?

We focused on the following:

- The reasonableness of the underlying assumptions used by the Council's expert – Barnett Waddingham.
- Ensuring the information supplied to the actuary in relation to Mendip District Council was complete and accurate
- Ensuring the accounting entries and disclosures made in the financial statements were consistent with the report from Barnett Waddingham.

What did we do?

- Liaised with the auditors of Somerset Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Mendip DC.
- Assessed the work of the Pension Fund actuary including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team.
- Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.
- In accordance with the ISA540 (revised) standard, we tested the actuarial model to confirm it is appropriately designed, consistently applied and mathematically accurate. We involved our EY Pensions specialists to perform this work.

What are our conclusions?

This area is subject to final manager and partner review at the time of writing this report.

Impacting all unsigned audits as at 31 March 2023, we needed to consider the potential impact of the triennial valuation of the pension fund. The updated valuation has meant that Authorities have had to consider re-running their IAS 19 reporting and update the figures in the balance sheet to reflect the new Valuation. As per the draft financial statements, Mendip DC had a net pension liability of £40.4m. The updated amount is £35.4m.

Due to the material movements in these figures, we have had to perform additional procedures. This work includes additional membership testing of the Fund level data, obtaining updated assurances from PWC as the consulting actuaries and re-running the comparisons to our own actuarial model.

We have assessed the work of the Pension Fund Actuary, relying on the work of PWC and the EY Actuarial team which confirmed there were no findings in respect to the actuarial assumptions. The results of the EY pensions specialist has confirmed the actuarial estimate to be accurate within a reasonable range.

We are satisfied the updated IAS 19 report has been correctly reflected in the Council's financial statements.

Other areas of audit focus

Accounting for Covid-19 Grants

What is the risk?

Central Government have provided a number of different Covid-19 related grants to local authorities during the year which were new in the prior year i.e. 20/21. There are also funds that have been provided for the Council to disseminate to other bodies.

Similar to prior year, the Council needs to review each of these to establish the correct accounting treatment. It needs to assess whether it is acting as a principal or agent, with the accounting to follow that decision. For those where the decision is a principal, it also needs to assess whether there are any outstanding conditions that may also affect the recognition of the grants as revenue during 2021/22. We continue to identify this area as high inherent risk given the issues identified in the prior year.

What did we do?

On a sample of the Covid-19 grants and funding population we:

- Reviewed the accounting guidance applied by the Council and assessed whether the appropriate guidance was considered and correctly applied;
- Reviewed whether any conditions were attached to grants impacting their recognition;
- Assessed whether the accounting appropriately followed those judgements; and
- Ensured sufficient and appropriate disclosures were included in the accounts.

What are our conclusions?

We considered the Council's judgement on material grants received in relation to whether it is acting as:

- An Agent, where it has determined that it is acting as an intermediary; or
- A Principal, where the Council has determined that it is acting on its own behalf.

We confirmed in all cases that the accounting for the grants was reasonable and appropriate, with sufficient disclosures in the accounts.

03 Audit Report

Draft audit report

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MENDIP DISTRICT COUNCIL (DEMISED)

Opinion

We have audited the financial statements of Mendip District Council (the Council) for the year ended 31 March 2022 under the Local Audit and Accountability Act 2014 (as amended). The financial statements comprise the:

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Cash Flow Statement,
- the related notes 3.01 to 3.13, 4.01, 5.01 to 5.18, 6.01 to 6.04, 7.01 to 7.08, and 9,
- Collection Fund and the related notes 8.01 and 8.02

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)..

In our opinion the financial statements:

- give a true and fair view of the financial position of Mendip District Council as at 31 March 2022 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – Merger of Somerset County Council and other local districts (including Mendip District Council) to form Somerset Council, 1 April 2023

We draw attention to Note 7.08 Going concern, which describes the formation of a single unitary authority for Somerset covering the area of the existing County Council and incorporating the four existing district councils, including Mendip on 1 April 2023 and the transfer of the Council's assets, liabilities and services to Somerset Council (the name of the newly formed Authority). Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Council's ability to continue as a going concern for a period of 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Chief Finance Officer with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Council's ability to continue as a going concern.

Draft audit report

Our opinion on the financial statements

Other information

The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. The Chief Finance Officer is responsible for the other information contained within the Statement of Accounts.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 (as amended)
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014 (as amended)
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 (as amended)
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 (as amended)
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014 (as amended)
- we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

We have nothing to report in these respects

Responsibility of the Chief Finance Officer

As explained more fully in the Statement of Responsibilities set out on pages 34 and 35, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), and for being satisfied that they give a true and fair view and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Council either intends to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud

Draft audit report

Our opinion on the financial statements

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

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Council and determined that the most significant are:

- Local Government Act 1972,
- Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992),
- Local Government Act 2003,
- The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018, 2020, and 2022,
- The Local Government Finance Act 2012,
- The Local Audit and Accountability Act 2014 (as amended), and
- The Accounts and Audit Regulations 2015.

In addition, the Council has to comply with laws and regulations in the areas of anti-bribery and corruption, data protection, employment Legislation, tax Legislation, general power of competence, procurement and health & safety.

We understood how Mendip District Council is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, head of internal audit, those charged with governance and the monitoring officer and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of the Council's committee minutes, through enquiry of employees to confirm Council policies, and through the inspection of employee handbooks and other information. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.

We assessed the susceptibility of the Council's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures, we identified inappropriate capitalisation of revenue expenditure and management override of controls to be our fraud risks.

To address our fraud risk of inappropriate capitalisation of revenue expenditure we tested the Council's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine. We also tested a sample of REFCUS items to confirm they were appropriately classified.

To address our fraud risk of management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any identified significant

Draft audit report

Our opinion on the financial statements

transactions that were unusual or outside the normal course of business. These procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error.

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

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

We have undertaken our review in accordance with the Code of Audit Practice 2020, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General in December 2021, as to whether Mendip District Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Mendip District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Mendip District Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 (as amended) to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until the NAO as group auditor has confirmed that no further assurances will be required from us as component auditors of Mendip District Council. We are satisfied that this work does not have a material effect on the financial statements or our work on value for money arrangements.

Use of our report

This report is made solely to the members of Mendip District Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 (as amended) and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

04 Audit Differences

Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as "known" or "judgemental". Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted and unadjusted differences

We highlight the following misstatements greater than £0.9m which have been corrected by management that were identified during the course of our audit:

- There were no such corrections to report. It is noted the updated Pensions Liabilities figure and associated disclosure amendments in the final accounts fully agreed to the updated IAS19 report and therefore are recorded as having nil difference.

We report to you any uncorrected misstatements greater than our nominal value of £59k, as recorded below:

Uncorrected misstatements 31 March 2022 (£'000)	Effect on the current period:		Net assets (Decrease)/Increase				
	OCI Debit/(Credit)	Comprehensive Income and Expenditure Statement Debit/(Credit)	Assets current Debit/(Credit)	Assets non current Debit/(Credit)	Liabilities current Debit/(Credit)	Liabilities non-current Debit/(Credit)	Equity components Debit/(Credit)
Known differences:							
• Bad Debt Provision – inclusion of Local Authority debt		(£64.9k)	£64.9k				
• NDR Debtors		(£202.1k)	£202.1k				
Judgemental differences:							
• PPE Valuations – Sharpham Building	£688k			(£688k)			
Projected Differences:							
Net Cost of Services – Expenditure – extrapolation following error in sample items		(£158k)					£158k
Totals	£688k	(£425.0k)	£267k	(£688k)			£158k

As we review the amended version of financial statements, it is possible that further amendments may arise. We will provide an update at the Audit Committee meeting and a final position at the conclusion of the audit.

05 Value for Money

Value for money

The Council's responsibilities for value for money (VFM)

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the Cipfa code of practice on local authority accounting. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Risk assessment

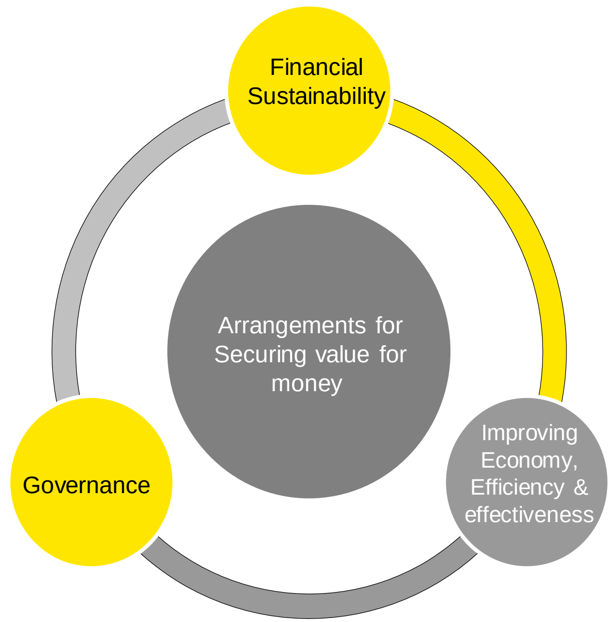
Throughout the audit we have performed a risk assessment in relation to the arrangements in place. This risk assessment looked at whether there was any risk of significant weaknesses in the VFM arrangements.

No significant risks were identified throughout the risk assessment stage.

Status of our VFM work

We have completed our planned VFM procedures and have no matters to report by exception in the auditor's report (see Section 03).

We plan to issue the VFM commentary, as part of issuing the Auditor's Annual Report.



06 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Financial Report 2021/22 with the audited financial statements

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Narrative Statement and published with the financial statements was consistent with the audited financial statements

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

At the time of writing this report we have not yet been able to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. This work will be performed on completion of the audit. We anticipate no matters to report, as the Council falls below the treshould for detailed audit procedures.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Council, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Mendip District Council’s financial reporting process. We have no other matters to report.

07 Assessment of Control Environment

Assessment of Control Environment

Financial controls

It is the responsibility of the Mendip District Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Mendip District Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

Based on our work performed to date we have made the following control observations.

- Related Party Transactions – In order to appropriately report related party transactions in the financial statements, we expect the Council to maintain an up to date register of interests. This is achieved through members and senior officers submitting their declaration of interests annually. During our testing we noted several instances of members not providing a submission in 21/22, although it is noted the majority of members have made a timely submission. While we have been able to obtain alternative evidence to satisfy ourselves the Related Parties Transactions note is accurate, in future years we request that annual submissions are completed in all cases. Prior to a member/senior officer leaving the Council mid year, their submission should be obtained prior to their departure.

We considered whether circumstances arising from COVID-19 resulted in a change to the overall control environment of effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention

08 Data Analytics

Data analytics – Journal Entries

Analytics Driven Audit

Page 513

Data Analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2021/22, our use of these analysers in the Council's audit included gaining a deeper understanding of the data sources which are used in each Significant Class of Transactions and therefore allowing us to tailor our testing accordingly dependant on the nature of the source entries. We tested specific journal entries which we deem to have the highest inherent risk to the audit, including unusual transactions not consistent with the rest of the population.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis

We obtain downloads of all of the Council's financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

09 Independence

Independence

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, and its members and senior management and its affiliates, including all services provided by us and our network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2021 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The next page includes a summary of the fees that you have paid to us in the year ended 31 March 2022 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided are shown below.

We are continuing to provide non-audit services as reporting accountant for your Housing Benefit Assurance Process (HBAP) to the DWP which is a permitted service. We believe that it is appropriate for us to undertake this permitted non-audit services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved .

Confirmation and analysis of Audit fees

We confirm there are no changes in our assessment of independence since our confirmation in our audit planning board report.

We complied with the APB Ethical Standards. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you and your Audit Committee consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Council.

Our fees continue to include the scale fee rebasing figure submitted in the prior year to properly account for the increased audit and quality requirements as well as increased regulatory challenge on the depth and quality of assurance provided by audit suppliers. This submission will be made to PSAA for their consideration.

As part of our reporting on our independence, we set out a summary of the fees for the year ended 31 March 2022.

Description	Final fee 2021/22	Planned Fee 2021/22	Final Fee 2020/21
	£	£	
Audit Scale Fee – Code work	38,287	38,287	38,287
Proposed scale fee rebasing (Note 1)	46,193	46,193	25,950
Scale fee variation – e.g. property valuation errors (Note 2)	TBC	1,400	
Impact of the New Code of Audit Practice, and revised ISA540 (Note 3)	8,874	8,874	8,874
Objection to the accounts	n/a	n/a	6,560
Total Code audit fee	TBC	94,754	79,671
Non-audit services (Housing Benefits)	8,300	8,300	8,300
Total fees	TBC	103,054	87,971

All fees exclude VAT

Notes:

1. In our 2019/20 Annual Audit Letter we set out our rationale for a rebasing the audit fee to address changes in professional and regulatory requirements, and the associated impact on audit procedures. For the purposes of planning we have rolled the same calculated £46,193 forward from previous years.
2. A scale fee variation was approved by PSAA for specific issues relating to the 2020/21 audit, including prior year adjustments, differences, errors in relation to property valuations, and errors in Covid-19 grants accounting. There are some areas that will roll-forward into 2021/22, for example, utilising our Pensions and Real estate team for work on areas of focus and significant risk. However, please note we will assess the overall position following conclusion of the audit. All variations to the 2021/22 scale fee are subject to determination by PSAA.
3. PSAA have written to all local authorities to indicate a range of fees for the impact of the 2020 Code of Audit Practice and new auditing standards. We calculated the impact for Mendip DC to be at the lower end of PSAA's ranges in 2020/21, which PSAA have approved. We have rolled this forward into the 2021/22 planned fee as the requirements are recurrent.

Independence

Other communications

EY Transparency Report 2022
Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2022: EY UK Transparency Report | EY UK

10 Appendices

Required communications with the Audit Committee

There are certain communications that we must provide to the those charged with governance of UK entities. We have detailed these here together with a reference of when and where they were covered:

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Planning Report – October 2022
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	Audit Planning Report – October 2022
Significant findings from the audit	• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process	Audit Results Report – September 2023

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty related to going concern • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The appropriateness of related disclosures in the financial statements	No conditions or events were identified, either individually or together to raise any doubt about Mendip District Council's ability to continue for the 12 months from the date of our report. Mendip District Council's services were transferred to the newly formed Somerset Council on 1 April 2023, with Mendip DC then ceasing to exist. As there is a continuation of services the Going Concern assumption continues to be appropriate. This is appropriately recorded in the financial statements. We have recorded an emphasis of matter in our audit report to draw the users attention to this note in the accounts.
Misstatements	• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management	Audit Results Report – September 2023
Subsequent events	• Enquiry of the Audit Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	Audit Results Report – September 2023
Fraud	• Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Audit Committee responsibility.	Audit Results Report – September 2023

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity	Audit Results Report – September 2023
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence	Audit Results Report – September 2023
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures.	We have received all requested confirmations
Consideration of laws and regulations	• Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur • Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Significant deficiencies in internal controls identified during the audit	• Significant deficiencies in internal controls identified during the audit.	We have not identified any significant deficiencies in internal controls
Written representations we are requesting from management and/or those charged with governance	• Written representations we are requesting from management and/or those charged with governance	Audit results report – September 2023
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	• Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report – September 2023
Auditors report	• Key audit matters that we will include in our auditor's report • Any circumstances identified that affect the form and content of our auditor's report	Audit results report – September 2023 No such circumstances identified

Appendix B

Draft Management representation Letter

Management Rep Letter

[To be prepared on the entity's letterhead]

Kevin Suter

Ernst & Young LLP

Grosvenor House
Grosvenor Square
Southampton
Hampshire
SO15 2BE

Page 523

This letter of representations is provided in connection with your audit of the financial statements of Mendip District Council ("the Council") for the year ended 31 March 2022. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of Mendip District Council as of 31 March 2022 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic and of the conflict and related sanctions in Ukraine, Russia and/or Belarus on our system of internal controls.on our system of internal controls.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because [specify reasons for not correcting misstatement]

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

Draft Management representation letter

Management Rep Letter

3. 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.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including, without limitation, allegations by "whistleblowers") including non-compliance matters:
   - involving financial statements;
   - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
   - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Authority's activities, its ability to continue to operate, or to avoid material penalties;
   - involving management, or employees who have significant roles in internal controls, or others; or
   - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
   - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
   - Additional information that you have requested from us for the purpose of the audit; and
   - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements, including those related to the COVID-19 pandemic and including those related to the conflict and related sanctions in Ukraine, Russia and/or Belarus.
3. We have made available to you all minutes of the meetings of the Full Council, Cabinet and Audit Committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 8 March 2023.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.
6. We have disclosed to you, and 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, including all covenants, conditions or other requirements of all outstanding debt.

Draft Management representation letter

Management Rep Letter

7. From the date of our last management representation letter (3 August 2022) through the date of this letter we have disclosed to you any unauthorised access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorised access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate, and ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that we have given to third parties.

E. Going Concern

1. Note 7.08 to the financial statements discloses all the matters of which we are aware that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

F. Subsequent Events

1. Other than as described in the financial statements, there have been no events, including events related to the COVID-19 pandemic, and including events related to the conflict and related sanctions in Ukraine, Russia and/or Belarus, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report and the Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Climate-related matters

1. We confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation and disclosure of climate-related matters has been considered and reflected in the financial statements.
2. The key assumptions used in preparing the financial statements are, to the extent allowable under the requirements of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, aligned with the statements we have made in the other information or other public communications made by us.

I. Reserves

1. We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

Draft Management representation letter

Management Rep Letter

J. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the IAS19 pension liability and disclosure, property, plant and equipment valuations and investment property valuations, and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

K. Estimates

1. We confirm that the significant judgments made in making the estimates for pension liabilities, the valuations of property, plant and equipment and investment properties, and the valuation of the NDR Appeals Provision have taken into account all relevant information of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the estimates.
3. We confirm that the significant assumptions used in making the estimates appropriately reflect our intent and ability to carry out any relevant specific courses of action on behalf of the entity.
4. We confirm that the disclosures made in the financial statements with respect to the accounting estimates, including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.
5. We confirm that appropriate specialised skills or expertise has been applied in making the estimates.
6. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements, including due to the COVID-19 pandemic.

L. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

____

(s151 Officer)

____

(Chair of the Audit Committee)

EY | Assurance | Tax | Transactions | Advisory

About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.
EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

ED None

ey.com

This page is intentionally left blank

Mendip District Council Council Auditor's Annual Report

Year ended 31 March 2022

Contents

Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/).The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The “Terms of Appointment and further guidance (updated July 2021)” issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of Mendip District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee and management of Mendip District Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Mendip District Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

Introduction

Purpose

The purpose of the auditor's annual report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on value for money (VFM) arrangements, which aims to draw to the attention of the Council, or the wider public, relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

Responsibilities of the appointed auditor

We have undertaken our 2021/22 audit work in accordance with the Audit Plan that we issued on 20 October 2022. We have complied with the National Audit Office's (NAO) 2020 Code of Audit Practice, other guidance issued by the NAO and International Standards on Auditing (UK).

As auditors we are responsible for:

Expressing an opinion on:

- The 2021/22 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the narrative statement.

Reporting by exception:

- If the governance statement does not comply with relevant guidance or is not consistent with our understanding of the Council;
- If we identify a significant weakness in the Council's arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- Any significant matters that are in the public interest.

Responsibilities of the Council:

The Council is responsible for preparing and publishing its financial statements, narrative statement and annual governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Introduction (continued)

2021/22 Conclusions	
Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2022 and of its expenditure and income for the year then ended. We issued our auditor's report on xx xxxx 2023. We included within our report an emphasis of matter that draws the reader's attention to disclosures regarding the Somerset local government reorganisation, and that all services, assets and liabities of Mendip DC transferred to the new Somerset Council as of 1 April 2023. This is not a qualification of our audit report.
Going concern	We have concluded that the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Consistency of the other information published with the financial statement	Financial information in the narrative statement and published with the financial statements was consistent with the audited accounts.
Value for money (VFM)	We had no matters to report by exception on the Council's VFM arrangements. We have included our VFM commentary in Section 03.
Consistency of the annual governance statement	We were satisfied that the annual governance statement was consistent with our understanding of the Council.
Public interest report and other auditor powers	We had no reason to use our auditor powers.
Whole of government accounts	We have performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission.
Certificate	We will be able to issue our certificate once the NAO have confirmed whether there are any additional group audit procedures required following the Whole of Government Accounts submission.

Audit of the financial statements

Key findings

The Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

On xx xxxx 2023, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the 28 September 2023 Audit Committee meeting of Somerset Council. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan. We reported 1 areas for improvement in the control environment in the Audit Results Report.

Significant risk	Conclusion
Risk of fraud in revenue and expenditure recognition - inappropriate capitalisation of revenue expenditure	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. From our risk assessment, we have assessed that the risk manifests itself through the potential to inappropriately capitalise revenue expenditure to improve the financial position of the general fund. We tested a sample of Property, Plant & Equipment and Investment Property additions and noted no issues. We also tested a sample of expenditure classified as Revenue expenditure financed from capital under statute (REFCUS), and again noted no issues.
Misstatements due to fraud or error - management override of controls	Our work did not identify any material weaknesses in the design of controls or evidence of material misstatements, whether due to fraud or error. Our work did not identify any instances of inappropriate judgements being applied. Our work did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business. We have not identified any unusual or unsupported journals, or other adjustments made in preparing the financial statements.
Valuation of Investment Properties	The fair value of Investment Property (IP) represent significant balances in the Council's accounts and are subject to valuation changes and impairment reviews. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet which triggers the use of experts by management and EY likewise. Although the economic conditions may now be considered more stable, there are still uncertainties with regards to valuations impacting Investment Properties, which are held at Fair Value. From our sample testing by both the local team and our EY Real Estates team, we did not identify any uncorrected differences or material corrected differences.

Audit of the financial statements

Other risks / areas of audit focus	Conclusion
Valuation of Land & buildings (property, plant & equipment)	Valuations of land & buildings represent significant balances in the Council's accounts and are subject to valuation changes. Material judgemental inputs and estimation techniques are required to calculate the balances held in the balance sheet. We identified 1 difference in regards to the valuation of the Sharpham Building (Council Offices). This was due to two elements: • The valuer included a special payment arrangement with Somerset County Council in the valuation, which was not considered to be standard lease arrangement. • The yield rate applied by the valuer was considered to be too low, resulting in an overstatement of value of the asset. Following discussion with management, they agreed to correct for the special payment arrangement, but not correct the yield. This resulted in an uncorrected judgemental difference of £688k
Pension Liability valuation	The Code of Accounting Practice requires extensive disclosures regarding the Council's pension liability balances. The accounting requires significant estimation and judgement, with management engaging an actuary to undertake the calculations on their behalf. As the audit was not completed by 31 March 2023, management needed to take account of the completed 2022 triennial valuation, and requested a new report from their actuary. As per the draft financial statements, Mendip DC had a net pension liability of £40.4m. The updated amount was £35.4m. Due to the material movements in these figures, we performed additional procedures including obtaining updated assurances from PWC as the consulting actuaries and re-running the comparisons to our own actuarial model. We have assessed the work of the Pension Fund Actuary, relying on the work of PWC and the EY Actuarial team which confirmed there were no findings in respect to the actuarial assumptions. The results of the EY pensions specialist has confirmed the actuarial estimate to be accurate within a reasonable range. We are satisfied the updated IAS 19 report has been correctly reflected in the Council's financial statements.
Accounting for Covid-19 grants	The Authority continued to receive a series of grants from the UK government in support for the pandemic crisis management. We identified the accounting treatment of those grants as an area of focus since this is a significant change in the funding streams for accounting by the Council, as well as due to the differences identified in the previous year. We considered the Council's judgement on material grants received in relation to whether it is acting as: • An Agent, where it has determined that it is acting as an intermediary; or • A Principal, where the Council has determined that it is acting on its own behalf. We confirmed in all cases that the accounting for the grants was reasonable and appropriate, with sufficient disclosures in the accounts

Value for Money

We did not identify any risks of significant weaknesses in the Council's VFM arrangements for 2021/22.

Our VFM commentary highlights relevant issues for the Council and the wider public.

We have no matters to report by exception in the audit report.

Scope

We are required to report on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in it use of resources. We have complied with the guidance issued to auditors in respect of their work on value for money arrangements (VFM) in the 2020 Code of Audit Practice (2020 Code) and Auditor Guidance Note 3 (AGN 03). We presented our VFM risk assessment to the 30 January 2023 Audit & Governance Committee meeting which was based on a combination of our cumulative audit knowledge and experience, our review of Council committee reports, meetings with the Chief Finance Officer and evaluation of associated documentation through our regular engagement with Council management and the finance team.

Reporting

We completed our risk assessment procedures and did not identify any significant weaknesses in the Council's VFM arrangements. We have also not identified any significant risks during the course of our audit. As a result, we had no matters to report by exception in the audit report on the financial statements.

Our commentary for 2021/22 is set out over pages 8 to 10. The commentary on these pages summarises our conclusions over the arrangements at the Council in relation to our reporting criteria (see below) throughout 2021/22. Appendix A includes the detailed arrangements and processes underpinning the reporting criteria. These were reported in our 2020/21 Auditor's Annual Report and have been updated for 2021/22.

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

Reporting criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services	No significant risks identified	No significant weaknesses identified
Governance: How the Council ensures that it makes informed decisions and properly manages its risks	No significant risks identified	No significant weaknesses identified
Improving economy, efficiency and effectiveness: How the Council uses information about its costs and performance to improve the way it manages and delivers its services	No significant risks identified	No significant weaknesses identified

Value for Money (continued)

Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

The Council had arrangements in place to ensure its financial sustainability.

At the end of the financial year 2021/22 the Council reported an underspend against budget of £730k, and usable revenue reserves of £17.2m. This demonstrates that the Council has appropriately managed its budget, and retained its financial resilience despite a number of pressures faced during the year including residual pressures from the pandemic. Variances against budge were reported in the Council's outturn report, and within the Narrative Report to the Statement of Accounts.

During Feb 2022 the Council set its 2022/23 annual budget which was based on reasonable assumptions, and clear analysis of the risks made by the s151 Officer.

This was the last council budget, as the Somerset local government reorganisation meant no budget for Mendip DC was needed for 2023/24.

The reporting outturn for the 2022/23 year was again an underspend, of £909k.

Subject to the audit for the 2022/23 year, they transferred to the new Council:

- Revenue Reserves: £12.4m
- Capital reserves: £2.4m
- Cash: £26.7m
- Net Assets: £26.9m
- Net current assets: £22.8m.

The borrowing of the Council was predominantly fixed rates through the PWLB, and therefore, Mendip District Council or its successor body were not exposed to significant risks from increasing interest rates.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Value for Money (continued)

Governance: How the Council ensures that it makes informed decisions and properly manages its risks

The Council had appropriate arrangements in place to make informed decisions and manage its risks.

Within its Constitution and other policies and procedures the Council had the appropriate framework in place to take its decisions. Risk reports were taken quarterly to the Audit Committee, and that Committee was supported in its work by Internal Audit who provided an assurance level of ‘Reasonable’ in their annual Head of Internal Audit Opinion.

Moving into 22/23, the Council engaged with the projects to establish the new Somerset Council. Limits were put in place through Government Directions to take effect from the 2022/23 financial year to ensure that decisions taken did not adversely impact the starting position for the new Council.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to make informed decisions and properly manage its risks.

Value for Money (continued)

Improving economy, efficiency and effectiveness: How the Council uses information about its costs and performance to improve the way it manages and delivers its services

The Council has appropriate arrangements in place.

The Council uses a range of mechanisms, both formal and informal, to evaluate its performance in delivering services, and for identifying and delivering service improvement opportunities. Finance and performance information is used to monitor and manage services

It starts from the top, with a clear expectation that the services provided should be delivered in a way that puts the customer at the heart of the process. This has been embedded throughout the organisation through the Corporate Plan and regular monitoring. The Council's range of commitments and measures each year within the Corporate Plan explain what customers can expect from the Council and reports how well its doing are presented quarterly to the Cabinet.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to use information about its costs and performance to improve the way it manages and delivers services.

Appendices

Appendix A – Summary of arrangements

Financial Sustainability

Reporting Sub-Criteria	Findings
How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them	The Medium-Term Finance Plan (MTFP) is reviewed annually and involves discussions with the Chief Executive (CE), S151 Officer and relevant committee meetings highlighting performance and the significant pressures arising. The Heads of services are in regular discussion with the Business Partners (BPs) and feed into the overall MTFP that the S151 officer monitors. The s151 Officer monitors the pressures, income sources in the form of fees and charges, and any compensating funding available from government through non-ringfenced funding etc. The S151 officer has a fortnightly meeting with Heads of Service which would identify upcoming pressures and issues to be included in internal monthly budget monitoring as well as quarterly budget monitoring for the Cabinet e.g., with commercial property rents. Where there are significant changes occurring in the year which affect the MTFP/budget assumptions, these will be built into the MTFP workings to see the impact. Pressures are reported to the committee meetings in a transparent manner and taken into account in the MTFP. During the pandemic further financial monitoring was introduced as the Council made large number of payments of government grants. This monitoring tracked the expenditure incurred against the grants received and reported back to the distributor of grants. E.g. Delta returns for SFC, LRSG grant reconciliation to BEIS. As a result of the ongoing monitoring and financial awareness, the Council produced a 2022/23 budget and financial plan during the year that linked to the updated Corporate Delivery Plan (September 2021), in order to close the initial shortfall. Activities continued to involves consideration and prioritisation of service activity against: The corporate strategy; Current performance levels; Current projected and previous outturn levels; Delivery of Government targets; Changes in Government funding; Capital Investment requirements.

Appendix A – Summary of arrangements (continued)

Financial Sustainability (Continued)

Reporting Sub-Criteria	Findings
How the body plans to bridge its funding gaps and identifies achievable savings	The budget, MTFP, treasury strategy and capital programme are all updated and extended as further funding gaps or opportunities are identified. There is a focus on generating income through acquiring investment properties, efficiently using the existing properties, car park income, developer contributions. The 22/23 budget also involved a comprehensive review of reserves, and identified funding of £400k to support the Corporate Plan priorities. Progress on delivery of the budget and corporate plan is reported to the Scrutiny board and Cabinet through the quarterly reporting.
How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities	Formal budget setting is carried out in the summer/late autumn each year with updates during the year as appropriate. This involves discussions between service manager and BPs to ensure that funding in built in to deliver the statutory priorities. This is further discussed with Heads of Service and ultimately the S151 officer. The Council maintains a Corporate Plan which sets out its strategic priorities, as referenced above. Service managers and BPs are made aware of the content of the document and take this into account when setting the budgets each year. The budget is monitored through the budgetary control process discussed in the sections above. While there is a focus on cost control and savings, this has not resulted in limiting service delivery instead the Council plans to save costs through identifying efficiencies, maximising income through commercial avenues, and the review of reserves to ensure that all services are delivered to residents appropriately, and linked to corporate priorities.
How the body ensures that 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	Operational changes are identified by BPs during the year through discussion with their service managers; they are also involved in checking any reports going to committee which have financial implications. This will include specific plans for the organisation. Any significant changes are highlighted in the budget monitoring/MTFP. The Council has a number of well-established partnerships which are built into the normal budgetary control processes. This initially included the 5 Councils' contract to achieve economy and efficiency by pooling resources however the Council has gradually withdrawn from the arrangement, for reasons noted per our 20/21 Auditor's Annual Report. Projects to be added to the Capital programme are subject to the completion of a budgeting process to assess cost v benefit of the project. The funding needs for the resulting capital programme are discussed between the Capital Programme Manger and Deputy S151/S151 Officer and any need for Revenue contributions or use of reserves are also identified. (continued...)

Appendix A – Summary of arrangements (continued)

Financial Sustainability (Continued)

Reporting Sub-Criteria	Findings
How the body ensures that 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 (continued)	Therefore, regular touch-points as well as appropriate and consistency in involvement of staff ensures that all plans are aligned to deliver the common objectives of the Council outlined in the Corporate Plan. During the year, as the arrangements for the Somerset local government reorganisation progressed, limits were put in place to take effect from the 22/23 financial year to ensure that decisions taken did not adversely impact the starting position for the new Council.
How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans	The monthly budget monitoring process examines all income and expenditure against budgets. It highlights at an early stage where expenditure is being incurred but where insufficient or no budgetary provision exists. Regular fortnightly meetings are held between S151 officer and Heads of Service to review the current financial position as reported by business partners and further formal monthly internal reporting. This is backed up by the budget monitoring updates to the Cabinet on a quarterly basis, where any unplanned changes in demand from their budget meetings with service managers are picked up and any appropriate revision to the budget is added in. Where there are significant changes occurring in the year which affect the MTFP assumptions, these will be built into the MTFP workings to see the effect. The Council has recognised pressure on its funding and the requirement of generating income from commercial sources. It produced a balanced budget including income from these areas, but has not expanded its commercial activities. At the end of the financial year 21/22 the Council reported an underspend against budget of £730k, and usable revenue reserves of £17.2m. This demonstrates that the Council has appropriately managed its budget, and retained its financial resilience despite a number of pressures faced during the year including residual pressures from the pandemic. Variances against budge were reported in the Council's outturn report, and within the Narrative Report to the Statement of Accounts. The Council also maintains a strategic risk register to record areas of risk which the Council faces in delivering its services to the local public. These are discussed internally and reported to the committee meetings every quarter. Finally, the Council also has an overarching Risk and Opportunity Management Policy that is embedded within key management processes and day to day working.

Appendix A – Summary of arrangements (continued)

Governance

Reporting Sub-Criteria	Findings
How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud	The Council has a Risk and Opportunity Management Policy and a Strategic Risk Register based on the policy to monitor and assess risk. The Council's overall risk appetite level set out in the strategy is 'Creative and Aware'; i.e., willing to consider all potential options but identifies well measured risks and learns from experiences. The Council's policy is based on the principles of Identifying, Evaluating, Managing and Reviewing & Reporting. This stresses that risk management is an integral part of everyday management through Heads of Service and is appropriately considered as part of decision making. The policy sets out the roles and responsibilities of each function i.e., internal audit, elected members, relevant committees, leadership team and Heads of Service to identify the risks to their services every year. The report is collated by officers and presented to the Cabinet and Audit Committee. The quarterly risk reports have been taken to the Audit Committee. The Council has outsourced the internal audit service to South West Audit Partnership (SWAP) which undertakes the IA plan for the financial year. The internal audit service provides independent assurance on the effective operation of controls in accordance with the internal audit strategy and charter. Progress on delivering the plan and the latest findings arising are reported to each meeting of the Audit Committee. The result of all this work is used in the Annual Head of Internal Audit's Opinion report along with other sources of assurances on internal control available that year, to provide the Audit Committee an annual assurance opinion. The scope of the work carried out by internal audit includes testing the adequacy of controls to prevent or detect fraud or error. The reports include overall assurance opinions for each audit and highlight any weaknesses in controls designed to prevent and detect fraud and error (amongst other things). The Annual Head of Internal Audit's report also highlights any income or expenditure errors (including the value) which have been identified from audit testing. During the current year, the IA function was also requested to include the C-19 payments under their review to gain assurance over such payments and the process. The review concluded in reasonable assurance. This demonstrates that the Council responds to the risks identified. The Section 151 Officer is also kept aware of any significant fraud investigations, particularly where internal fraud is suspected and is often the steering officer for these cases so is aware of what is being found in these cases. We also noted this through our regular meetings with the S151 officer. Finally, we note that the overall Head of Internal Audit's opinion was 'Reasonable'.
How the body approaches and carries out its annual budget setting process	The approach has been the same for a number of years wherein a new budget model is built by the Business partners, agreed with Heads of Service for their areas, with a detailed time tabled task list each year. The core people costs are identified on salary model with agreed pay award and non-salary costs e.g., major contracts costs are confirmed Capita, Somerset Waste partnership. (continued…)

Governance (Continued)

Reporting Sub-Criteria	Findings
How the body approaches and carries out its annual budget setting process (continued)	Assumptions are made on inflation and the budget model identifies increases, saving and inflationary pressures from prior year budget. The S151 reviews and challenges the budget until a final version is agreed and presented to Full Council, including his s25 report. The Finance business partners meet monthly with Heads of Service using monthly budget monitors and reflect the changes in revised forecast. Training has been provided to Budget Holders in terms of their responsibilities and is refreshed in case of promotions or new joiners by another experienced members of staff. There are monthly scheduled meeting where Business Partners meet with the Budget Holders at which variances , risks and opportunities are pro-actively highlighted and discussed
How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed	The Council has processes and procedures in place to ensure the body have effective systems in place to ensure budgetary control, to communicate relevant, accurate and timely management information; to support its statutory financial reporting requirements and to ensure the body is taking corrective action where needed. Initially an overspend is identified between the Head of Service and their Business Partner. Where an overspend occurs it may be possible to manage this by use of a Budget Virement following appropriate approvals. The Scheme of Delegation mitigates against overspending to date, in such that increasing levels of expenditure (Purchase Orders and Contracts) require approval from officers with higher levels of seniority. Overspends are also highlighted to members in reports that go to Scrutiny Board and Cabinet during the year through Covid finances reporting or quarterly budget monitoring. The performance monitoring includes treasury management and capital programme updates. As well as performance monitoring, the committees also receive quarterly updates on the Corporate Performance Management providing qualitative details and progress towards the agreed objectives of the Council.
How the body 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	The Constitution, including the Schemes of Delegation, sets out how different types of decisions are made, including who has the responsibility for making them and what procedures should be followed. Procedures include publishing committee report on the Council's website in advance of meetings. (continued...)

Appendix A – Summary of arrangements (continued)

Governance (Continued)

Reporting Sub-Criteria	Findings
How the body 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 (continued)	The Cabinet carries out all of the Council's functions (known as executive functions) which are not allocated to another part of the Council by law or by this Constitution. The Cabinet comprises of a maximum of ten members, consisting of the Leader of the Council, who will appoint the Deputy Leader(s) and the remaining other members. When major decisions are to be discussed or made, these are published in the Cabinet's forward plan in so far as they can be anticipated. If these major decisions are to be discussed with council officers at a meeting of the Cabinet, this will generally be open for the public to attend except when personal or confidential matters are being discussed. The Cabinet has to make decisions that are in line with the Council's overall policies and budget. If it wishes to make a decision that is outside the budget or policy framework, this must be referred to the Council as a whole to decide. The Constitution contains a detailed explanation of roles and responsibilities of each committee which in turn lead to effective working of the Council. The Monitoring Officer and Chief Finance Officer maintain their legal responsibilities to ensure that the Council acts legally and within its financial means and are present at all the executive Committee meetings, along with a representative from the legal services partnership. A Forward Plan is prepared on behalf of the Council giving details of all the Key Decisions likely to be taken by the Cabinet or other decision making body over at least the next four months, and where reasonably practicable, over a period of twelve months. This will be updated on a monthly basis, with a new Forward Plan being produced at least 14 days before the start of the period which it covers. Where partnerships have been developed with other agencies, decision making powers and delegated powers are documented and presented to members. The Audit Committee's role main role is to ensure the adequacy of the Council's risk management framework and the associated control environment; scrutinise the Council's financial and non-financial performance, particularly in relation to the Council's exposure to risk and the strength of the control environment and oversee the Council's financial reporting process. The audit committee reports directly to the full Council and aim to give taxpayers and other Councillors assurance through scrutiny of financial management. This also includes an independent member for best practice. The meetings of the committee are held every quarter with agenda that discusses internal audit, external audit and other financial management areas e.g. treasury management, statement of accounts.

Appendix A – Summary of arrangements (continued)

Governance (Continued)

Reporting Sub-Criteria	Findings
How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)	In accordance with the Localism Act 2011 Mendip DC has a Code of Conduct which sets out the behaviours expected from members, and arrangements in place to deal with any matters identifies of ethics, honesty and member conduct. This includes a formal member complaint procedure which is overseen by the Monitoring Officer. New members receive an induction session on the Code including how to declare interests in advance and at committee meetings. Any complaints can be recorded through the Council's website. A standards sub-committee is set up when a significant breach by a member requires investigation and the conclusion is reported at the next meeting of the Audit Committee and Full Council. The Council's Code of Conduct and Disciplinary Rules and Procedure aim to maintain appropriate standards of conduct at work by employees. All new employees complete induction on the content of the Code. A report is taken annually to the Standards Committee with the Gifts and Hospitality Register.

Appendix A – Summary of arrangements (continued)

Improving economy, efficiency and effectiveness

Reporting Sub-Criteria	Findings
How financial and performance information has been used to assess performance to identify areas for improvement	The monthly budget monitoring process examines all income and expenditure against budgets. It highlights at an early stage where expenditure is being incurred but where insufficient or no budgetary provision exists. This is reported to the S151 Officer to take corrective action in the form of identifying savings or redistribute resources depending on the size of the overspend. This is further reported to the Scrutiny Board and Cabinet through quarterly budget monitoring reports as discussed in Section 1 and 2 above. The Council has amended its budget based on its forecasting taking into account the impact of covid and also the grant funding that was provided during 20/21. At the end of the year any areas which were overspent are discussed in the Business Partners meeting and an action plan devised to work with the service to bring the spend under control.
How the body evaluates the services it provides to assess performance and identify areas for improvement	The Council uses a range of mechanisms, both formal and informal, to evaluate its performance in delivering services, and for identifying and delivering service improvement opportunities. It starts from the top, with a clear expectation that the services provided should be delivered in a way that puts the customer at the heart of the process. This has been embedded throughout the organisation through the Corporate Plan and regular monitoring. Alongside this, a strong and clear message, enshrined within the Council's corporate objectives to "build a fairer, greener and more vibrant Mendip that values our distinctive towns and rural communities." has been cascaded throughout the organisation to ensure that services are not only highly effective, but they are also efficient too. This is also supported by the update Risk and Opportunity Strategy. Lines of responsibility in leading service delivery make it clear that Heads of Service are responsible and empowered to make continuous improvements to deliver services that meet customer expectations within affordable financial parameters. Understanding actual performance is key, and this is measured across all front line services surveys and feedbacks linked on the Council's website. Similarly, the Council's range of commitments and measures each year within the Corporate Plan explain what customers can expect from the Council and reports how well its doing are presented quarterly to the Cabinet. There are a range of other, less formal methods of public engagement that the Council adopt to assess the quality of services it delivers. E.g. regular meetings with customer groups (for example, with tenants, residents re: waste services) to provide a forum for issues and concerns to be raised. (continued…)

Appendix A – Summary of arrangements (continued)

Improving economy, efficiency and effectiveness

Reporting Sub-Criteria	Findings
How the body evaluates the services it provides to assess performance and identify areas for improvement (continued)	All of these channels provide the leadership team with a rounded view of how well services are performing from the customer's perspective and enables the Council to focus on areas where improvement may be necessary. The above activities address operational service performance measurement, and other mechanisms are used to identify and implement more strategic/fundamental service improvements.
How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve	The Council maintains a Corporate List of its significant partnerships. These are assessed for their significance in terms of the results they seek to deliver, their profile/reputation and resources involved. Lead officers are assigned to each partnership. They are responsible for the day to day liaison with the stakeholders and customers of the partnership and for providing the Senior Leadership Team with details of any significant changes to the circumstances / membership of the partnership. Senior Officers and/or Members sit on the board of the Council's significant partnerships, and take an active part in discussions and decision making including the delivery of strategies and performance plans set for the partnership. The Council is part of the Somerset Waste partnership and two councillors sit on the board of the partnership and the annual business plan is taken to the Cabinet. The other main area is the 5 Councils contract. The scope of services under the contract were reduced at the beginning of FY 20/21 with further withdrawal from 01/04/2021 bringing back HR, finance, payroll, exchequer and procurement functions in-house over that period. We noted that payroll processing was further subcontracted to Sedgemoor DC once the service had exited from 5 Councils contract, in preparation for the merger into the new Somerset Council from 1/4/23. Performance information is also taken to the Cabinet and relevant Council meetings to engage stakeholders at the appropriate time.

Appendix A – Summary of arrangements (continued)

Improving economy, efficiency and effectiveness (Continued)

Reporting Sub-Criteria	Findings
How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits	Upon internalisation of procurement management from Capita, a new Target Operating Model (TOM) was implemented. This TOM describes a new sourcing/tendering model, whereby lower value, lower risk sourcing is undertaken in a self-service mode i.e., within the Service teams with Procurement in an advisory capacity. The Procurement team take more control of the process as value/risk increase. In order to support the advisory capacity, and the amount of sourcing that would need to be driven by the team, the Procurement team has been increased to two persons under the management of the S151 Officer, with an option to increase to 3 FTEs in the future as further significant procurement exercises are undertaken. In support of the TOM, the Constitution Section 21 (Contract Procedure Rules) has been re-written, authorised, implemented and communicated. This, and other, documentation is available to all MDC staff via the newly created Procurement SharePoint site. Over time, this site was populated with sourcing and tendering instructions and training material, covering sourcing/tendering best practice, and process maps specifically designed so the correct procedure can be extracted by simply picking the relevant type/value of sourcing required and documentation templates. The advertising of sourcing opportunities is governed in line with Central Government advice. ProContract was used to manage both advertisements and tendering processes. This process will be managed centrally by Procurement team who have relevant experience in such implementations and procurement specific projects. The Legal team store contracts, both physical (off-site storage) and digitally. Any digital contracts created by MDC can now be signed in an efficient manner, the signature process being undertaken by Procurement. Specialist external advice is still sought where the project is of a strategic or high-risk nature. In terms of realising expected benefits, the recent insourcing of HR, accountancy, procurement, exchequer and Agresso upgrade have been monitored and closing reports provided to senior management to demonstrate realisation of benefits.

Appendix B – Summary of all recommendations

Recommendations

The table below sets out all the recommendations arising from the financial statements and value for money audits in 2021/22. All recommendations have been agreed by management.

Issue	Recommendation	Management Response
Financial statements: Related Party Transactions Related Party Transactions – In order to appropriately report related party transactions in the financial statements, we expect the Council to maintain an up to date register of interests. This is achieved through members and senior officers submitting their declaration of interests annually. During our testing we noted several instances of members not providing a submission in 21/22, although it is noted the majority of members have made a timely submission	Annual submissions are completed in all cases. Prior to a member/senior officer leaving the Council mid year, their submission should be obtained prior to their departure.	

Appendix C – Fees

Fees

Our fees continue to include the scale fee rebasing figure submitted in the prior year to properly account for the increased audit and quality requirements as well as increased regulatory challenge on the depth and quality of assurance provided by audit suppliers. This submission will be made to PSAA for their consideration.
As part of our reporting on our independence, we set out a summary of the fees for the year ended 31 March 2022.

Description	Final fee 2021/22	Planned Fee 2021/22	Final Fee 2020/21
	£	£	
Audit Scale Fee - Code work	38,287	38,287	38,287
Proposed scale fee rebasing (Note 1)	46,193	46,193	25,950
Scale fee variation - e.g. property valuation errors (Note 2)	TBC	1,400	
Impact of the New Code of Audit Practice, and revised ISA540 (Note 3)	8,874	8,874	8,874
Objection to the accounts	n/a	n/a	6,560
Total Code audit fee	TBC	94,754	79,671
Non-audit services (Housing Benefits)	8,300	8,300	8,300
Total fees	TBC	103,054	87,971

All fees exclude VAT

Notes:

1. In our 2019/20 Annual Audit Letter we set out our rationale for a rebasing the audit fee to address changes in professional and regulatory requirements, and the associated impact on audit procedures. For the purposes of planning we have rolled the same calculated £46,193 forward from previous years.
2. A scale fee variation was approved by PSAA for specific issues relating to the 2020/21 audit, including prior year adjustments, differences, errors in relation to property valuations, and errors in Covid-19 grants accounting. There are some areas that will roll-forward into 2021/22, for example, utilising our Pensions and Real estate team for work on areas of focus and significant risk. However, please note we will assess the overall position following conclusion of the audit. All variations to the 2021/22 scale fee are subject to determination by PSAA.
3. PSAA have written to all local authorities to indicate a range of fees for the impact of the 2020 Code of Audit Practice and new auditing standards. We calculated the impact for Mendip DC to be at the lower end of PSAA's ranges in 2020/21, which PSAA have approved. We have rolled this forward into the 2021/22 planned fee as the requirements are recurrent.

Appendix C – Fees
Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, and its members and senior management and its affiliates, including all services provided by us and our network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2021 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity

EY provided the non-audit service of Reporting Accountant for the Council's Housing Benefit Subsidy Return for the year end 31 March 2022, which is a permitted service.

As at the date of this report, we expect to perform the same service for the 2022/23 subsidy return.

EY | Assurance | Tax | Transactions | Consultancy

About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

ED None

EY-000070901-01 (UK) 07/18. CSG London.

In line with EY's commitment to minimise its impact on the environment, this document has been printed on paper with a high recycled content.

ey.com

This page is intentionally left blank

Mendip District Council

Audit planning report

Year ended 31 March 2023

September 2023

Page 555

Building a better working world

Somerset Council
County Hall
The Crescent
Taunton
TA1 4DY

20 September 2023

Dear Audit Committee Members

We are pleased to attach our Audit Plan relating to Mendip District Council which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2022/23 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Audit Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 28 September 2023 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Kevin Suter

For and on behalf of Ernst & Young LLP

Enc

Contents

Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/).The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated July 2021)" issued by the PSAA (https://www.psaa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/) sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of Somerset Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee and management of Somerset Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Somerset Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Overview of our 2022/23 audit strategy

Overview of our 2022/23 audit strategy

The following ‘dashboard’ summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error	Fraud risk	No change in risk or focus	There is a risk that the financial statements as a whole are not free from material misstatement whether caused by fraud or error. We perform mandatory procedures regardless of specifically identified fraud risks.
Inappropriate capitalisation of revenue expenditure due to fraud or error	Fraud risk	No change in risk or focus	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure.
Valuation of Investment Properties (IP)	Inherent risk	Reduction in risk	The fair value of Investment Property (IP) represent significant balances in the Council’s accounts and are subject to valuation changes and impairment reviews. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet which triggers the use of experts by management and EY likewise. As market conditions have become more stable, we have reduced the risk from “significant” to “higher inherent”. The account remains a higher inherent risk due to the estimation uncertainties noted above.
Valuation of Property, Plant and Equipment (PPE)	Inherent risk	No change in risk or focus	The fair values of Property, Plant and Equipment (PPE) represent significant balances in the Council’s accounts and are subject to valuation changes, and impairment reviews. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet which triggers the use of experts by management and EY likewise. Due to these factors the account remains a higher inherent risk.

Overview of our 2022/23 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Pension Liability Valuation	Inherent risk	No change in risk or focus	The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Somerset Council. The Council's pension fund liability is a material estimated balance and the Code requires that this asset be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Page 560

Removal of Audit risks and areas of focus

Accounting for Covid-19 grants	Inherent risk	Removal of area of risk	Due to Covid-19 grants being in place for more than one financial year, and the value of new Covid-19 grants in 22/23 are immaterial, we consider the risk of misstatement to be sufficiently reduced to remove the inherent risk that was present in the 21/22 audit plan. Covid-19 related grants will be included as part of the wider grants population when we complete our substantive testing.

Overview of our 2022/23 audit strategy

Materiality

Planning materiality

£1,144k

Materiality has been set at £1,144k, which represents 2% of the gross expenditure on provision of services as per the FY 2022/23 draft financial statements. This is consistent with the prior year approach.

Performance materiality

£858k

Performance materiality has been set at £858k, which represents 75% of materiality which is consistent with the prior year approach.

Audit differences

£57k

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement, collection fund) greater than £57k. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

Overview of our 2022/23 audit strategy

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Mendip District Council give a true and fair view of the financial position as at 31 March 2023 and of the income and expenditure for the year then ended; and

- Our commentary on your arrangements to secure value for money in your use of resources for the relevant period. We include further details on VFM in Section 03.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years as well as the expansion of factors impacting the ISA 540 (revised) and the value for money conclusion. Therefore to the extent any of these or any other risks are relevant in the context of Mendip District Council's audit, we will discuss these with management as to the impact on the scale fee.

Effects of climate-related matters on financial statements and Value for Money arrangements
Public interest in climate change is increasing. We are mindful that climate-related risks may have a long timeframe and therefore while risks exist, the impact on the current period financial statements may not be immediately material to an entity. It is nevertheless important to understand the relevant risks to make this evaluation. In addition, understanding climate-related risks may be relevant in the context of qualitative disclosures in the notes to the financial statements and value for money arrangements.
We make inquiries regarding climate-related risks on every audit as part of understanding the entity and its environment. As we re-evaluate our risk assessments throughout the audit, we continually consider the information that we have obtained to help us assess the level of inherent risk.

Overview of our 2022/23 audit strategy

Value for money conclusion

We include details in Section 03 but in summary:

- We are required to consider whether the Council has made ‘proper arrangements’ to secure economy, efficiency and effectiveness on its use of resources.

- Planning on value for money and the associated risk assessment is focused on gathering sufficient evidence to enable us to document our evaluation of the Council’s arrangements, to enable us to draft a commentary under three reporting criteria (see below). This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

- We will provide a commentary on the Council’s arrangements against three reporting criteria:
    - Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services;
    - Governance - How the Council ensures that it makes informed decisions and properly manages its risks; and
    - Improving economy, efficiency and effectiveness - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

- The commentary on VFM arrangements will be included in the Auditor’s Annual Report.

Timeline

Following the merger of Mendip District Council into the new Somerset Council, we have prioritised the engagement with an aim to deliver the audit by end of October 2023.

Audit team changes

Key changes to our team:

Manager – James Stuttaford
9 years of experience auditing Local Government
Experienced manager of several Local Government District Councils in the south region

02 Audit risks

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Misstatements due to fraud or error	What is the risk?	What will we do?
	The financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.	We will undertake our standard procedures to address fraud risk, which include: ➢ Identifying fraud risks during the planning stages. ➢ Inquiring of management about risks of fraud and the controls put in place to address those risks. ➢ Understanding the oversight given by those charged with governance of management's processes over fraud. ➢ Considering the effectiveness of management's controls designed to address the risk of fraud. ➢ Determining an appropriate strategy to address any identified risks of fraud. Performing mandatory procedures regardless of specifically identified fraud risks, including ➢ Testing of journal entries and other adjustments in the preparation of the financial statements. ➢ Reviewing accounting estimates for evidence of management bias. ➢ Evaluating the business rationale for any significant unusual transactions.

Audit risks

Our response to significant risks

Inappropriate capitalisation of revenue expenditure

(Fraud Risk)

Page 566

Financial statement impact

Inappropriate capitalisation of revenue expenditure would decrease the net expenditure from the general fund, and increase the value of non-current assets.

Expenditure that should be revenue may be inappropriately funded from capital resources.

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

From our risk assessment, we have assessed that the risk manifests itself solely through the inappropriate capitalisation of revenue expenditure to improve the financial position of the general fund.

Capitalised revenue expenditure could then be inappropriately funded through borrowing with only minimal MRP charges recorded in the general fund, deferring the expenditure for 30+ years when the borrowing is repaid. Alternately, it could also inappropriately be funded by capital receipts or grants, that should not be used to support revenue.

Inappropriate classification of revenue expenditure as REFCUS (revenue expenditure funded by capital under statute) could also have the same impact, removing the spend incorrectly from the general fund through applying statutory overrides.

What will we do?

Our approach will focus on:

- For significant additions we will examine invoices, capital expenditure authorisations, leases and other data that will support these additions. We review the sample selected against the definition of capital expenditure in IAS 16.
- Reviewing the appropriateness of items classified as REFCUS.
- We will extend our testing capitalised in the year by lowering our testing threshold. We will also review a larger random sample of capital additions below our testing threshold.
- Journal testing – we will use our testing of Journals to identify high risk transactions, such as items originally recorded as revenue expenditure and subsequently capitalised or reclassified as REFCUS.

Audit risks

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
Valuation of Investment Properties (IP) The value of Fair Value Investment Properties assets represents a significant balance in the Council's accounts and it is subject to revaluation changes and impairment reviews. Management is required to make material judgmental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. IP assets are subject to regular review by the external valuers – Capita. Valuation of these assets involves higher risk estimates due to the significant assumptions and judgments involved in their valuation, which triggers the use of experts by management and EY (where necessary). These estimates give scope for higher inherent risk in this area of accounts therefore we have identified IP valuations as an area of focus.	We will: • Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; • Sample test key asset information used by the valuers in performing their valuation (e.g. leases, contracts and rent reviews) and challenge the key assumptions used by the valuers; • Confirm that all Investment Properties have been revalued in year, as required by the CIPFA Code for Fair Value assets. We will also consider if there are any specific changes to assets that have occurred and whether these have been communicated to the valuers; • Test to confirm that accounting entries have been correctly processed in the financial statements.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
Valuation of Property, Plant and Equipment (PPE) The value of DRC and EUV assets represents a significant balance in the Council's accounts and it is subject to revaluation changes and impairment reviews. Management is required to make material judgmental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. DRC and EUV assets are subject to regular review by the external valuers – Capita. Valuation of these assets involves higher risk estimates due to the significant assumptions and judgments involved in their valuation, which triggers the use of experts by management and EY (where necessary). These estimates give scope for higher inherent risk in this area of accounts therefore we have identified PPE as an area of focus.	We will: • Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; • Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre) and challenge the key assumptions used by the valuers; • Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE. We will also consider if there are any specific changes to assets that have occurred and whether these have been communicated to the valuers; • Review PPE assets not subject to valuation in 2022/23 to confirm that the remaining asset base is not materially misstated; • Consider the potential impact of current economic conditions on valuation uncertainties; • Consider changes to useful economic lives as a result of the most recent valuation; and • Test to confirm that accounting entries have been correctly processed in the financial statements.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
Pension Liability Valuation The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Somerset Council. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2023 this totalled £12.1million. The information disclosed is based on the IAS 19 report issued to the Council by the actuary. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	We will: • Liaise with the auditors of Somerset Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Mendip District Council; • Assess the work of the Pension Fund actuary including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; • Evaluate the reasonableness of the Pension Fund actuary's calculations by comparing them to the outputs of our own auditor's actuarial model; and • Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

03 Value for Money Risks

Value for Money

Council’s responsibilities for value for money

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

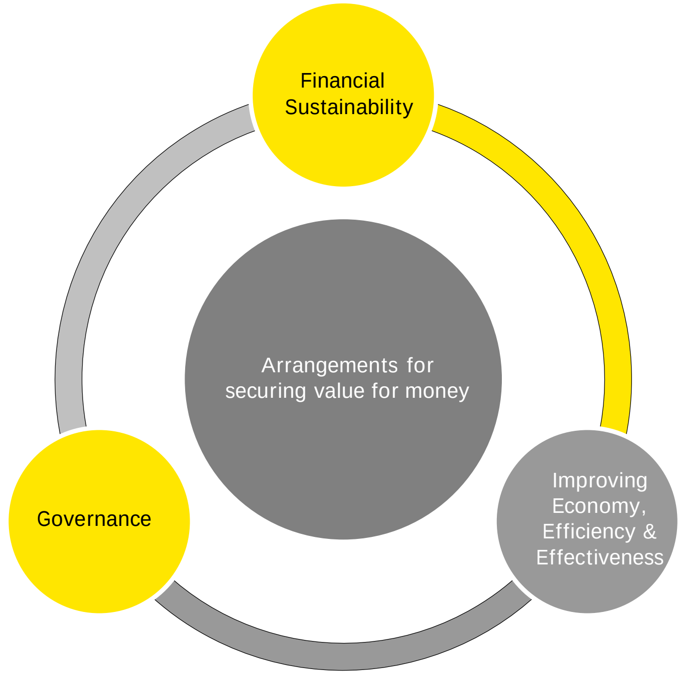
As part of the material published with the financial statements, the Council is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on arrangements for securing value for money from the use of resources.

Auditor responsibilities

Under the NAO Code of Audit Practice we are required to consider whether the Council has put in place ‘proper arrangements’ to secure economy, efficiency and effectiveness on its use of resources. The Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

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



Value for Money

Planning and identifying risks of significant weakness in VFM arrangements

The NAO's guidance notes requires us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Council's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

In considering the Council's arrangements, we are required to consider:

- The Council's governance statement;
- Evidence that the Council's arrangements were in place during the reporting period;
- Evidence obtained from our work on the accounts;
- The work of inspectorates and other bodies; and
- Any other evidence source that we regards as necessary to facilitate the performance of our statutory duties.

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement. However, the NAO states that a weakness may be said to be significant if it:

- Exposes – or could reasonably be expected to expose – the Council to significant financial loss or risk;
- Leads to – or could reasonably be expected to lead to – significant impact on the quality or effectiveness of service or on the Council's reputation;
- Leads to – or could reasonably be expected to lead to – unlawful actions; or
- Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

We should also be informed by a consideration of:

- The magnitude of the issue in relation to the size of the Council;
- Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves (where applicable), or impact on budgets or cashflow forecasts;
- The impact of the weakness on the Council's reported performance;
- Whether the issue has been identified by the Council's own internal arrangements and what corrective action has been taken or planned;
- Whether any legal judgements have been made including judicial review;
- Whether there has been any intervention by a regulator or Secretary of State;
- Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- The impact on delivery of services to local taxpayers; and
- The length of time the Council has had to respond to the issue.

Value for Money

Responding to identified risks of significant weakness

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to the Audit Committee.

Reporting on VFM

Where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the Code requires that we should refer to this by exception in the audit report on the financial statements.

In addition, the Code requires us to include the commentary on arrangements in the Auditor's Annual Report. The Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Council's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

Status of our 2022/23 VFM planning

We have yet to complete our detailed VFM planning, but at this stage have identified no significant risks.

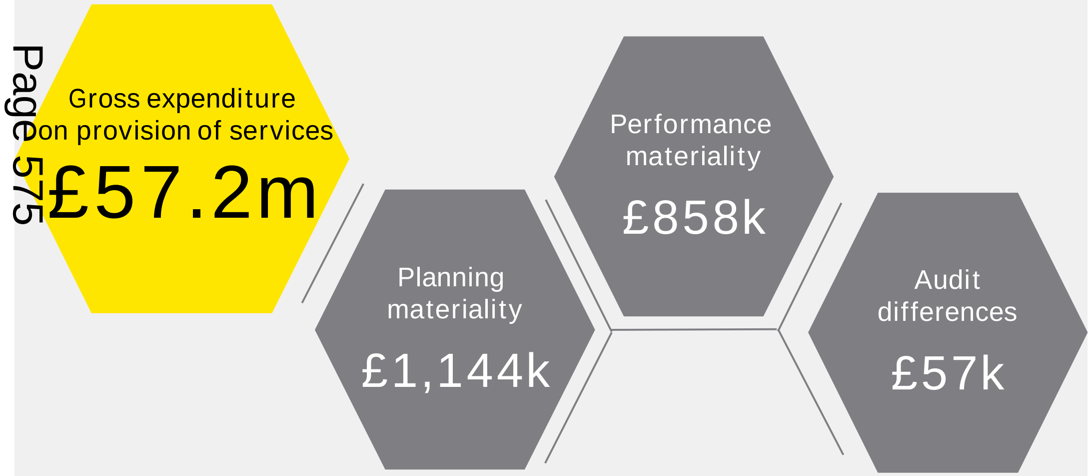
We will update the next Audit Committee meeting on the outcome of our VFM planning and our planned response to any additional identified risks of significant weaknesses in arrangements.

04 Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2022/23 has been set at £1,144k. This represents 2% of the Council's gross expenditure on provision of services based on FY 2022/23 draft financial statements. It will be reassessed throughout the audit process. When setting the materiality threshold, we took into account the main activities of the Council and also considered its overall risk profile and public interest in comparison to other councils. We have provided supplemental information about audit materiality in Appendix C.



We request that the Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £0.858m which represents 75% of planning materiality.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. The same threshold for misstatements is used for component reporting. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet and collection fund that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Audit Committee, or are important from a qualitative perspective.

Specific materiality – We identified accounts or disclosures for which misstatements of less than PM could be expected to influence the economic decisions of users of the financial statements.

Thus, we have set a materiality of £5,000 for officers' remuneration and exit packages disclosures in the financial statements. This reflects our understanding that an amount less than our main materiality could influence the economic decision of the users of the financial statements in relation to these areas. This specific materiality is set at the remuneration banding used in the officer emoluments note.

05 Scope of our audit

Scope of our audit

Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice, our principal objectives are to undertake work to support the provision of our audit report to the audited body and to satisfy ourselves that the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our opinion on the financial statements:

- whether the financial statements give a true and fair view of the financial position of the audited body and its expenditure and income for the period in question; and
- whether the financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.

Our opinion on other matters:

- whether other information published together with the audited financial statements is consistent with the financial statements; and
- where required, whether the part of the remuneration report to be audited has been properly prepared in accordance with the relevant accounting and reporting framework.

Other procedures required by the Code:

- Examine and report on the consistency of the Whole of Government Accounts schedules or returns with the body's audited financial statements for the relevant reporting period in line with the instructions issued by the NAO.

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

As outlined in Section 03, we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources and report a commentary on those arrangements.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

As in previous years, we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

For 2022/23 we will be applying a Digital Audit approach which puts data at the heart of the audit. Throughout the audit, we begin each task by considering data first, whether it is planning for the audit, performing risk assessment, or responding to risks.

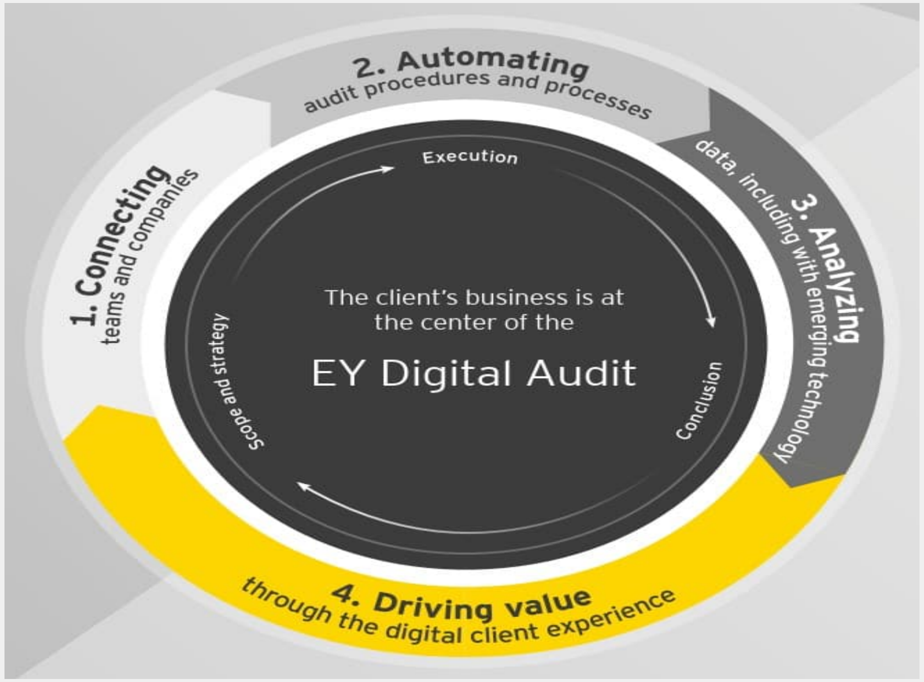
Furthermore, we will also enhance our risk assessment procedures in line with the revised ISA (UK) 315, Identifying and Assessing the Risks of Material Misstatement, which will involve more detailed work around identifying relevant IT controls and evaluating the design and implementation of these relevant IT controls. See subsequent slides for more information on ISA 315.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee.



Scope of our audit

Audit Process overview

The Digital Audit enhances our ability to:

- ➢ Understand changes in the business and processes
- ➢ Evaluate and respond to fraud risks
- ➢ Evaluate going concern
- ➢ Evaluate impairment
- ➢ Focus on cash

The Digital Audit experience includes use of the Client Portal which has a number of benefits:

- reduces email communication, saving you time when supporting the audit;
- provides on demand visibility into the status of audit requests, improving project management; and
- better security of data and automatic uploading into EY Canvas, creating confidence that data has been properly provided.

Audit Process overview

Internal audit

We will review internal audit plans and the results of their work. We will reflect on these when designing our overall audit approach and when developing our detailed testing strategy. We may also reflect relevant findings from their work in our reporting, where it raises issues that could have a material impact on the financial statements.

ISA (UK) 315

ISA (UK) 315 (Revised July 2020) *Identifying and Assessing the Risks of Material Misstatement*

Summary of key measures

- The revised auditing standard is effective for audits of financial statements for periods beginning on or after 15 December 2021, and adopts ISA 315 (Revised 2019) as issued by the IAASB;
- The revised risk assessment standard sees enhancements and clarifications to: (i) Encourage a more robust risk assessment, thereby promoting more focused responses to the identified risks; (ii) Clarify current requirements to promote consistency in the application of procedures for risk identification; and (iii) Modernize the standard to keep up with the evolving environment in which entities operate, in particular in relation to the entity's use of information technology;
- The fundamentals of risk assessment have not changed, however, the changes will see additional audit procedures and considerations being made in the following areas to respond to the requirements of the revised standard:
  - How we identify and assess risks based on our understanding of the entity and other risk assessment procedures;
  - How we understand the components of the system of internal control, including new evaluations which apply to each component;
  - The type of controls and process for understanding controls that are relevant to our audit relating to the preparation and posting of journal entries;
  - New requirement Understanding the effect of the Council's use of IT, including relevant IT general controls, and the identification of IT-related risks; and
  - Evaluating, as an audit team, whether sufficient evidence has been obtained to support the identification and assessment of risks of material misstatement.

External resources

- FRC Feedback statement and impact assessment
- IAASB Introduction to ISA 315 (Revised 2019) Fact Sheet

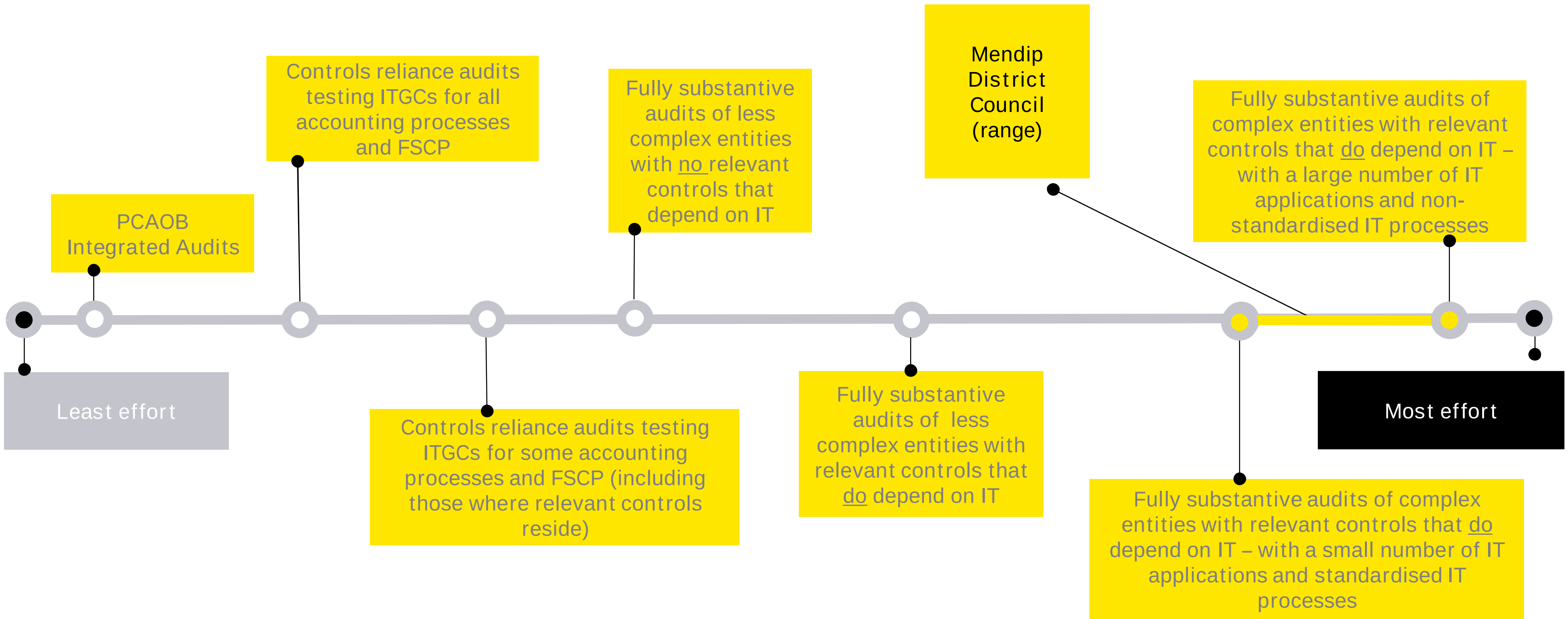
Impact on Mendip District Council

- The revised standard is for auditors and does not put any additional responsibilities or requirements on management or the Audit Committee, however, management and/or the Audit Committee may experience different conversations, requests or simply have more focused discussions with members of the audit team, including about risk, internal controls, audit quality and our audit strategy;
- For Mendip District Council the revised standard is effective for this audit of the financial statements for the period ended 31 March 2023;
- We will be required to perform new and additional procedures to understand the Council's use of IT, the IT processes related to those IT applications relevant to the audit used in the different accounting processes and, where relevant, the IT general controls (ITGCs) that address IT risks in the IT processes and evaluation of their design effectiveness and whether they have been implemented.

  The revised standard does not require an evaluation of the operating effectiveness of ITGCs; it continues to be a strategy decision for the auditor as to whether they intend to rely on IT processes.
- More control observations may be identified and communicated, and the additional evaluations of the components of the system of internal control may help identify deficiencies that are considered to be *significant deficiencies*;
- The new requirement relating to understanding the effect of the use of IT by an audited entity has the greatest potential for additional audit effort, involvement of team members with specialised knowledge of auditing IT, and an upward impact on audit fees;
- We have discussed on the next slides the specific impact of this new requirement on the audit of the Council;
- The other impacts of the revised standard on our audit strategy are reflected in the relevant sections of this report.

ISA (UK) 315

The graphic below indicates where we anticipate, based on our current understanding, that the audit of Mendip District Council falls on the spectrum of effort as it applies to the new requirements of the revised standard relating to understanding the effect of the use of IT. The level of effort is displayed relative to the circumstances applicable to Mendip District Council and why that level of effort may differ to that required on the audits of entities with different circumstances.



06 Audit team

Audit team

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings Valuation of Investment Properties	EY Real Estates; Management's external experts: Capita
Pensions disclosure	EY Pensions; Management's external expert: Barnett Waddingham.

Page 583

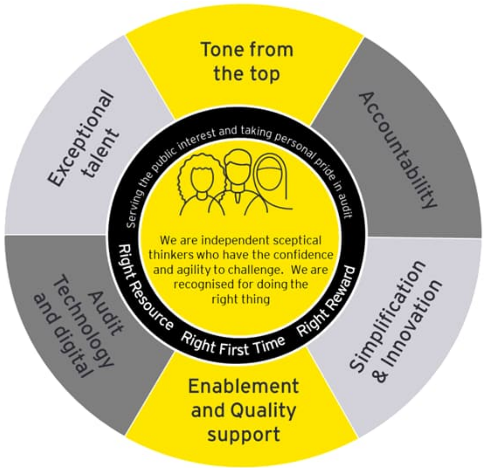
In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

Developing the right Audit Culture

In July 2021, EY established a UK Audit Board (UKAB) with a majority of independent Audit Non-Executives (ANEs). The UKAB will support our focus on delivering high-quality audits by strengthening governance and oversight over the culture of the audit business. This focus is critical given that audit quality starts with having the right culture embedded in the business.



Page 584

Our audit culture is the cement that binds together the building blocks and foundation of our audit strategy. We have been thoughtful in articulating a culture that is right for us: one that recognises we are part of a wider, global firm and is clear about whose interests our audits serve.

There are three elements underpinning our culture:

1. Our people are focused on a common purpose. It is vital we foster and nurture the values, attitudes and behaviours that lead our people to do the right thing.
2. The essential attributes of our audit business are:
   - Right resources – We team with competent people, investing in audit technology, methodology and support
   - Right first time – Our teams execute and review their work, consulting where required to meet the required standard
   - Right reward – We align our reward and recognition to reinforce the right behaviours
3. The six pillars of Sustainable Audit Quality are implemented.

01 **Tone at the top**

The internal and external messages sent by EY leadership, including audit partners, set a clear tone at the top - they establish and encourage a commitment to audit quality

02 **Exceptional talent**

Specific initiatives support EY auditors in devoting time to perform quality work, including recruitment, retention, development and workload management

03 **Accountability**

The systems and processes in place help EY people take responsibility for carrying out high-quality work at all times, including their reward and recognition

04 **Audit technology and digital**

The EY Digital Audit is evolving to set the standard for the digital-first way of approaching audit, combining leading-edge digital tools, stakeholder focus and a commitment to quality

05 **Simplification and innovation**

We are simplifying and standardising the approach used by EY auditors and embracing emerging technologies to improve the quality, consistency and efficiency of the audit

06 **Enablement and quality support**

How EY teams are internally supported to manage their responsibility to provide high audit quality

A critical part of this culture is that our people are encouraged and empowered to challenge and exercise professional scepticism across all our audits. However, we recognise that creating a culture requires more than just words from leaders. It has to be reflected in the lived experience of all our people each and every day enabling them to challenge themselves and the companies we audit.

Each year we complete an audit quality culture assessment to obtain feedback from our people on the values and behaviours they experience, and those they consider to be fundamental to our audit quality culture of the future. We action points that arise to ensure our culture continues to evolve appropriately.

2021 Audit Culture Survey result
A cultural health score of 78% (73%) was achieved for our UK Audit Business

We bring our culture alive by investing in three priority workstreams:

- Audit Culture with a focus on professional scepticism
- Adopting the digital audit
- Standardisation

This investment has led to a number of successful outputs covering training, tools, techniques and additional sources. Specific highlights include:

- Audit Purpose Barometer
- Active Scepticism Framework
- Increased access to external sector forecasts
- Forensic risk assessment pilots
- Refreshed PLOT training and support materials, including embedding in new hire and trainee courses
- Digital audit training for all ranks
- Increased hot file reviews and improved escalation processes
- New work programmes issued on auditing going concern, climate, impairment, expected credit losses, cashflow statements and conducting effective group oversight
- Development of bite size, available on demand, task specific tutorial videos

"A series of company collapses linked to unhealthy cultures.....have demonstrated why cultivating a healthy culture, underpinned by the right tone from the top, is fundamental to business success."

Sir John Thompson
Chief Executive of the FRC

07 Audit timeline

Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2021/22.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Audit committee timetable	Deliverables
Planning: Risk assessment and setting of scopes. Walkthrough of key systems and processes	July 2023	September 2023	
Year End Audit	August 2023	September 2023	Audit Planning Report
Audit Completion procedures	September 2023		
	October 2023	October 2023	Audit Results Report Audit Opinions Auditor’s Annual Report and Completion Certificates

08 Independence

Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage

- The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us;
- The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;
- The overall assessment of threats and safeguards;
- Information about the general policies and process within EY to maintain objectivity and independence.

Final stage

- In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;
- Details of non-audit/additional services provided and the fees charged in relation thereto;
- Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;
- Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner
- Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;
- Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and
- An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non –audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Kevin Suter, your audit engagement partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we have an investment in the Council; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. In addition, when the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you.

At the time of writing, the current ratio of non-audit fees to audit fees is below 1:1. No additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

Relationships, services and related threats and safeguards

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Other communications

EY Transparency Report 2022

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2022:

EY UK 2022 Transparency Report | EY UK

09 Appendices

Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

The fee for 2022/23 reflects the final year of the 5 year contract awarded by PSAA.

Description	Planned fee 2022/23	Final Fee 2021/22
	£	£
Audit Scale Fee – Code work	47,287	38,287
Proposed scale fee rebasing (Note 1)		46,193
Scale fee variation – e.g. property valuation errors (Note 2)		TBC
Impact of the New Code of Audit Practice, and revised ISA540 (Note 3)	8,874	8,874
ISA 315 (Note 4)	TBC	n/a
Total Code audit fee	TBC	TBC
Non-audit services (Housing Benefits)	8,300	8,300
Total fees	TBC	TBC

All fees exclude VAT

Notes:

1. In our 2019/20 Annual Audit Letter we set out our rationale for a rebasing the audit fee to address changes in professional and regulatory requirements, and the associated impact on audit procedures. For the purposes of planning we have rolled the same calculated £46,193 forward from previous years. For 2022/23 the PSAA have settled the rebasing process to a updated scale fee recorded above. However, this does not include additional scope impacts such as recorded in Note 3 and 4 below and therefore they are included as Scale Fee Variations.
2. We have not yet concluded our final procedures for 21/22 and therefore are not in a position to provide a final SFV. For 22/23 we are not yet aware of any additional in year scale fee variations but will update the Committee following the results of our audit procedures.
3. PSAA have written to all local authorities to indicate a range of fees for the impact of the 2020 Code of Audit Practice and new auditing standards. We calculated the impact for Mendip DC to be at the lower end of PSAA's ranges in 2020/21, which PSAA have approved. We have rolled this forward into the 2022/23 planned fee as the requirements are recurrent.
4. As highlighted in Section 5, the revision to ISA 315 will have a significant impact on our scope and approach, requiring auditors to enhance the audit risk assessment process, better focus responses to identified risks and evaluate the impact of IT on key processes supporting the production of the financial statements.

All variations to the 2022/23 scale fee are subject to determination by PSAA.

Appendix B

Required communications with the Audit Committee

We have detailed the communications that we must provide to the Audit Committee.

		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report
Significant findings from the audit	• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process	Audit results report
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements	Audit results report
Misstatements	• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management	Audit results report

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Subsequent events	• Enquiries of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements	Audit results report
Fraud	• Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Audit Committee responsibility	Audit results report
Related parties	• Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity	Audit results report

Appendix B

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence Communication whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Audit Planning Report and Audit Results Report
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures	Audit results report
Consideration of laws and regulations	• Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur • Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of	Audit results report
Internal controls	• Significant deficiencies in internal controls identified during the audit	Management letter/audit results report

Page 596

Appendix B

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report
Auditors report	• Any circumstances identified that affect the form and content of our auditor's report	Audit results report Auditor's Annual Report
Fee Reporting	• Breakdown of fee information when the audit plan is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work	Audit planning report Audit results report
Value for Money	• Risks of significant weakness identified in planning work • Commentary against specified reporting criteria on the VFM arrangements, including any exception report on significant weaknesses.	Audit planning report Audit results report Auditor's Annual Report

Page 597

Additional audit information

Objective of our audit

Our objective is to form an opinion on the Council's financial statements under International Standards on Auditing (UK) as prepared by you in accordance with with International Financial Reporting Standards as adopted by the EU, and as interpreted and adapted by the Code of Practice on Local Authority Accounting.

Our responsibilities in relation to the financial statement audit are set out in the formal terms of engagement between the PSAA's appointed auditors and audited bodies. We are responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of the Audit Committee. The audit does not relieve management or the Audit Committee of their responsibilities.

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards	• Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. • Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. • Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. • Concluding on the appropriateness of management's use of the going concern basis of accounting. • Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. • Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the Audit Committee reporting appropriately addresses matters communicated by us to the Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and • Maintaining auditor independence.

Additional audit information (continued)

Other required procedures during the course of the audit (continued)	
Procedures required by the Audit Code	• Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement. • Examining and reporting on the consistency of consolidation schedules or returns with the Council's audited financial statements for the relevant reporting period
Other procedures	• We are required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice
We have included in Appendix B a list of matters that we are required to communicate to you under professional standards.	

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines the level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

ED None

ey.com

Somerset Council
County Hall, Taunton
Somerset, TA1 4DY

Somerset Council

Ernst & Young LLP

Grosvenor House
Grosvenor Square
Southampton
Hampshire
SO15 2BE

My reference: MDC/SoA
Your reference: Kevin Suter
e-mail: Duncan.moss@somerset.gov.uk
Tel:

28 September 2023

Dear Sirs

This letter of representations is provided in connection with your audit of the financial statements of Mendip District Council ("the Council") for the year ended 31 March 2022. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the I financial position of Mendip District Council as of 31 March 2022 and of its income and expenditure for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), and are free of material misstatements, including omissions. We have approved the financial statements.

3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls and the effects of the conflict and related sanctions in Ukraine, Russia and/or Belarus on our system of internal controls.

5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because [specify reasons for not correcting misstatement].

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.

2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

3. 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.

4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

    - involving financial improprieties;

    - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;

- related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;

- involving management, or employees who have significant roles in internal controls, or others; or

- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

   - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

   - Additional information that you have requested from us for the purpose of the audit; and

   - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements, including those related to the COVID-19 pandemic and including those related to the conflict and related sanctions in Ukraine, Russia and/or Belarus.

3. We have made available to you all minutes of the meetings of the Council and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 8 March 2023.

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the [period] end. These transactions have been appropriately accounted for and disclosed in the financial statements.

5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)

6. We have disclosed to you, and 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, including all covenants, conditions or other requirements of all outstanding debt.

7. From the date of our last management representation letter (3 August 2022) through the date of this letter we have disclosed to you, to the extent that we are aware, any (1) unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants) , to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that we have given to third parties.

E. Going Concern

1. Note 7.08 to the financial statements discloses all the matters of which we are aware that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

F. Subsequent Events

1. Other than as. described in the financial statements, there have been no events, including events related to the COVID-19 pandemic, and including events related to the conflict and related sanctions in Ukraine, Russia and/or Belarus, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report and the Annual Governance Statement.

2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Climate-related matters

1. We confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation and disclosure of climate-related matters has been considered.

2. The key assumptions used in preparing the financial statements are, to the extent allowable under the requirements of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), aligned with the statements we have made in the other information or other public communications made by us.

I. Reserves

1. We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

J. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the IAS19 pension liability and disclosure, property, plant and equipment valuations and investment property valuations and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

K. Estimates

1. We confirm that the significant judgments made in making the estimates for pension liabilities, the valuations of property, plant and equipment and investment properties, and the valuation of the NDR Appeals Provision have taken into account all relevant information of which we are aware.

2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the estimates.

3. We confirm that the significant assumptions used in making the estimates appropriately reflect our intent and ability to carry out any relevant courses of action on behalf of the entity.

4. We confirm that the disclosures made in the financial statements with respect to the accounting estimates, including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

5. We confirm that appropriate specialized skills or expertise has been applied in making the estimates.

6. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the financial statements, including due to the COVID-19 pandemic.

L. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

____

(Chief Financial Officer)

____

(Chairman of the Audit Committee)

Progress Report of the 2023-24 Internal Audit Plan

Executive Member(s): Liz Leyshon – Lead Member for Resources and Performance
Lead Officer: Nicola Hix – Service Director Finance and Procurement
Author: Alastair Woodland – Assistant Director of SWAP Internal Audit Services
Contact Details: Alastair.woodland@SWAPaudit.co.uk

Summary / Background

1. The Internal Audit function plays a central role in corporate governance by providing assurance to the Audit Committee, looking over governance, risk, and internal controls and checking on the probity of the organisation.

2. The 2023-24 Annual Internal Audit Plan is to provide independent and objective assurance on SCC's Internal Control Environment. This work will support the Annual Governance Statement.

Recommendations

3. Members of the Audit Committee are asked to note the position of the 2023-24 Internal Audit Plan (See Attached Appendix – SWAP Report) and note any significant governance, risk or control matters raised in this report since the previous update in June 2023.

Reasons for recommendations

4. Internal Audit Is required under the Public Sector Internal Auditing Standards (PSIAS) to report directly to the Audit Committee on matters relating to governance, risk and Internal control. This is to assist the Audit Committee in its oversight role of governance, risk and internal control within Somerset County Council.

Links to Council Plan and Medium-Term Financial Plan

5. Delivery of the corporate objectives requires strong governance and risk management and effective internal controls. The Internal Audit Plan seeks to provide independent and objective assurance on matters relating to governance, risk and control processes that ultimately ensures delivery of statutory services and corporate aims and objectives.

Financial and Risk Implications

6. Any large organisation needs to have well-established and systematic risk management framework in pale to identify and mitigate the risks it may face. SCC has a risk management framework, and within that, individual internal audit reports deal with the specific risk issues that arise from the findings. These are translated into mitigating actions and timetable for management to implement.

Likelihood		**Impact**		**Risk Score**	

7. There are no specific financial issues relating to this report.

Legal Implications

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

HR Implications

9. There are no specific HR implications relating to this report.

Other Implications:

Equalities Implications

10. There are no direct Equality implications from this report.

Community Safety Implications

11. There are no direct Community Safety Implications.

Climate Change and Sustainability Implications

12. There are no direct Climate Change and Sustainability Implications.

Health and Safety Implications

13. There are no direct Health and Safety Implications from this report.

Health and Wellbeing Implications

14. There are no direct Health and Wellbeing Implications from this report.

Social Value

15. There are no direct Social Value implications from this report.

Scrutiny comments / recommendations:

16. N/A

Background Papers

17. SWAP Internal Audit Plan 2023-24 as reported SC Audit Committee April 2023

Appendices

Appendix A – SWAP Internal Audit Progress Report 2023-24

This page is intentionally left blank

Somerset Council

Report of Internal Audit Activity 2023/24

Progress Report – September 2023

Internal Audit Update – September 2023 – 'At a Glance'

Page 612

The Headlines

No Assurance or Limited Assurance Opinion based reviews in the period to report

- 3 Limited opinion audits have been completed in period.

Progress against the 2023/24 plan (incl. Grants)

- 21 planned reviews and support activities completed (including 13 grants certified)
- 6 review at draft stage
- 27 reviews in progress/on-going

Follow-ups in the period

Two follow-ups have been finalised since the last report.

Additions to the Plan

18 new reviews added to the plan following officer request.

Monitoring of agreed management actions

13 actions have been raised against the 23/24 audit plan, including one priority-1 action and ten priority-2 actions. Through our follow up work and responses from management 27 actions have been closed, including four priority-1 and nineteen priority-2 actions. Ongoing requests are being made to management to provide updates on outstanding recommendations, however delays have been experienced as a result of unitary transition.

Range of innovations and enhancements made to our internal audit process throughout the year

We have started the roll out of dashboard reporting for recommendation tracking allowing officers and management to have access to live data on the implementation of agreed actions. Roll out to Members will follow. In due course, oversight of audit plan delivery will also be rolled out to Senior Managers and Members.

Internal Audit Assurance Opinions 2023/24

	YTD
Substantial	-
Reasonable	-
Limited	3
No Assurance	-
Advisory and Grants	16
Follow Up	2
Total	**21**

Internal Audit Agreed Actions 2023/24

	YTD
Priority 1	1
Priority 2	10
Priority 3	2
Total	**13**

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:

Alastair Woodland
Assistant Director
alastair.woodland@swapaudit.co.uk

David Hill
Chief Executive
david.hill@swapaudit.co.uk

Page 613

Summary

This is the September 2023 progress update for 2023/24. It reports against the Internal Audit Plan agreed by the Somerset Council (SC) Audit Committee in April 2023. The schedule provided at **Appendix D** details progress made to date and any 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 overview role, a summary of the key audit findings that have resulted Limited assurance opinions can be found at **Appendix B**. There were 3 Limited opinion audits to report over the period, no audit was assessed as having a High Corporate Risk.

We perform follow-up reviews for all No and Limited assurance opinion audits. The results of follow-up reviews and key advisory audits performed this year can be found in **Appendix C**. Follow-up reviews provide assurance that recommendations to mitigate identified risks have been implemented. Two follow-up audits have been finalised since our last report.

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.

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 614

SWAP audit plan coverage against strategic risks

The table below maps planned audit work to Somerset Council's key strategic risks to provide assurance of coverage.

Strategic Risk	Coverage (Completed Audits)
SC ORG0009 - Safeguarding Children	Some
SC ORG0053 - Organisational Resilience	In Progress
SC ORG0056 - Supply Chain	None
SC ORG0057- Financial stability / Sustainable MTFP	Some
SC ORG0060 - Failure of ASC to meet statutory obligations	Some
SC ORG0061 - Climate Change	Some
SC ORG0062 - Health and safety management, strategic planning and direction is not embedded across the Council	In Progress
SC ORG0063 - Commercial Investments	In Progress
SC ORG0064 - Emerging Strategic Risk: Housing	Some
SC ORG0065 - Inability recruiting and retaining staff	None
SC ORG0066 - Financial instability within the VCFSE sector	None
SC ORG0067 - Emerging Strategic Risk: Costal protection & waterborne risks	None
SC ORG0068 - Increase in fraudulent activity	In Progress
SC ORG0070 - Budget overspend in the current year	Some
SC ORG0071 - Adults Social Care Transformation programme does not achieve its financial targets	None
SC ORG0072 - Emerging Strategic Risk: Equalities compliance	None
SC ORG0073 - Emerging Strategic Risk: Unauthorised Gypsy and Traveller encampments	None

(green)	Good coverage in plan (>10 audits over 2 year period)
(dark blue)	Reasonable coverage in plan (>5 audits over 2 year period)
(yellow)	Some (<5 audits over 2 year period)
(gold)	In progress (coverage in progress)
(red)	No audit coverage

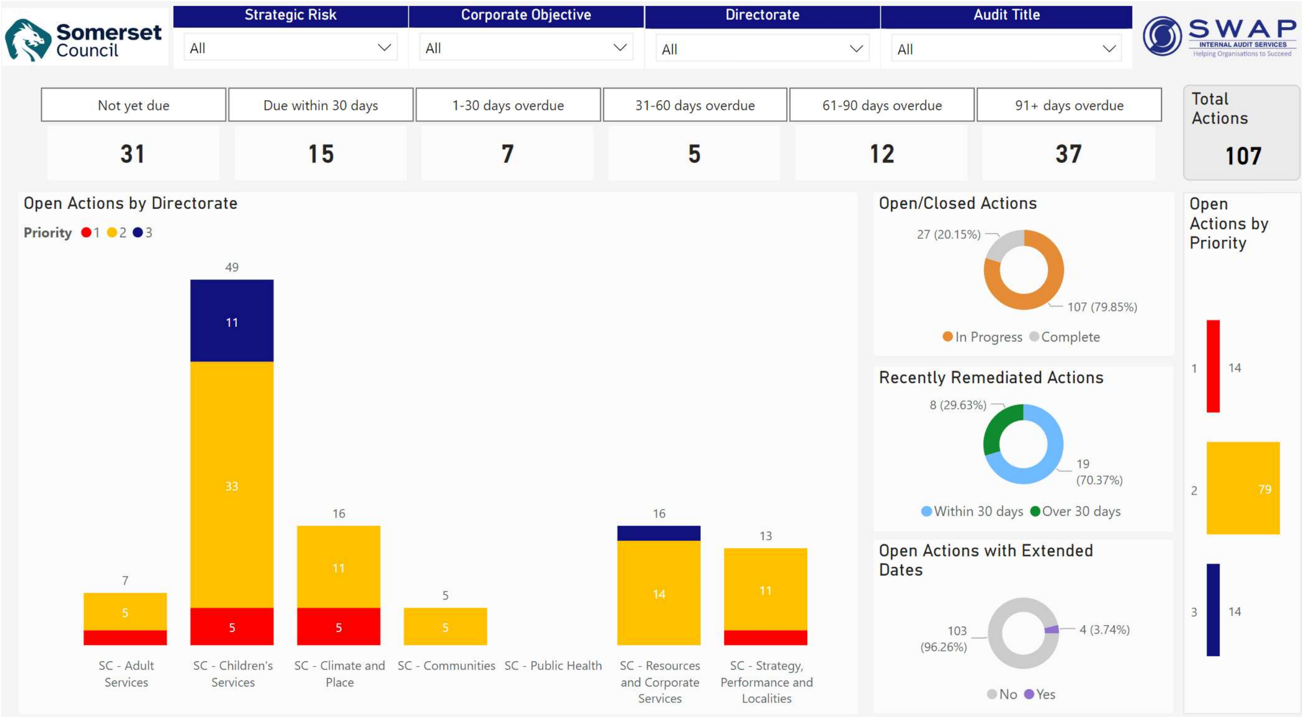
Internal Audit Plan Update

Follow up work confirms the responsive nature of management in implementing agreed actions to mitigate exposure to areas of risk.

Page 615

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 for delivery of audit actions as at September 2023.



Members will be provided with a separate report detailing all outstanding actions and the most recent management updates separate to this report.

Internal Audit Definitions — Appendix A

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.

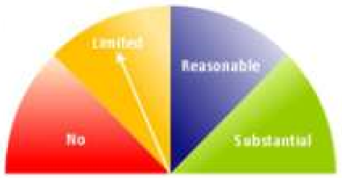
Schools Financial Value Standard Theme – Limited Assurance – June 2023

Schools Financial Value Standard Theme – Final Report – June 2023

Somerset Council | SWAP Internal Audit Services – Helping Organisations to Succeed

Audit Objective To establish if SFVS assessments accurately reflect the financial controls used in maintained schools.

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	1
Total	7

Risk Reviewed	Assessment
There is a disparity between the self-assessments provided by schools and the actual procedures they follow. Governors are not involved in the SFVS assessment, or do not ensure their schools address their weaknesses.	Medium

Key Findings

- Three of the schools are projecting they will be in overall deficit within the next three years. These schools may become unsustainable if they cannot address their expected budget gaps. 97 schools are projecting in-year deficits in 2023-24.
- All five schools had weaknesses relating to their SFVS return. At most, the governors either had limited involvement in producing the return or had not approved it. Two schools submitted incomplete returns.
- The schools were not consistently raising purchase orders. If schools do not commit their expenditure, their finance systems and budget monitoring reports may misrepresent their available funds.
- Four schools did not have asset management plans.
- Somerset Council needs to update existing guidance to add or clarify requirements for schools.

Audit Scope

The Schools Financial Value Standard (SFVS) is a financial control self-assessment. The SFVS is designed to help maintained schools in managing their finances and to give assurance to local authorities that schools have secure financial management in place.

We visited five maintained schools between November 2022 and January 2023. During the visits, we evaluated whether each school's 2021/22 SFVS self-assessment accurately reflected their governance and financial control framework.

Additional Information

The SFVS is aimed at governing bodies because they are responsible for the financial governance of their schools. The Department for Education (DfE) requires local authority-maintained schools to complete the assessment and send it to their local authority (LA) annually. In turn, LAs must send a statement to DfE confirming they have robust assurance systems. Somerset Council (SC) requires maintained schools to follow the rules set out in its Financial Management Scheme (FMS).

We provided each school with its own assurance report including agreed management actions. We gave Reasonable assurance to two schools, and Limited to three. The five schools have agreed to complete 63 actions in total.

This report for SC summarises the key common findings from these audits. It also highlights actions SC can take to help mitigate the key issues.

Eclipse Benefits Realisation – Limited Assurance – July 2023

ECLIPSE Benefits Realisation – Final Report – July 2023

Somerset Council | SWAP Internal Audit Services – Helping Organisations to Succeed

Audit Objective To establish whether the council has achieved the benefits expected from implementing the ECLIPSE system.

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	0
Priority 2	2
Priority 3	0
Total	2

Risks Reviewed	Assessment
The expected ECLIPSE implementation benefits are not realised, resulting in failure to deliver objectives and potential missed opportunities.	Low

Key Findings

The council did not produce a full business case for this project. The strategic business case included implementation outputs, but the council did not define how they would measure the resulting outcomes. This makes it difficult to evidence how beneficial those outcomes are.

Adult Services has not completed a formal benefits realisation evaluation against the original business case and key decision report.

The council has achieved most of the expected outputs but is still developing strategies on how to use all the functionality. The council is actively pursuing the expected functionality that is not yet in place.

The system's 'evergreen' nature means it can be configured to reflect future changes in practice.

There is a Change Board that is considers, approves, and monitors system change requests from staff.

Audit Scope

We agreed to assess the following controls in this audit:

- The approved business case sets out specific and measurable anticipated benefits and how the council will achieve them.
- The council assesses, reviews, and approves the impact of deviations from the business plan on the original planned benefits.
- Key stakeholders monitor the progress made towards achieving expected benefits.
- The council has completed a post-implementation or lessons learned review that establishes what benefits have and have not been achieved, and the reasons why.

Additional Information

While the council has achieved most outcomes, we are giving a Limited opinion because it did not follow a mature benefit realisation approach. The implementation benefits were not fully defined, there has been limited post-implementation monitoring and no formal project evaluation. ECLIPSE has been in place for two years. However, we believe the residual risk to the council is Low.

We acknowledge that this project started at a time when the council's benefit management approach was not fully mature, because it focused primarily on achieving financial savings. The COVID-19 pandemic also affected implementation. The Business Change team is working on a new benefits realisation framework that will apply to transition and transformation projects. Adults Services has already started engaging with this process.

Homes England Audit Scheme – Limited Assurance – 23/24

Homes England Audit Scheme – Final Update Report – 2023-24

Somerset Council | SWAP Internal Audit Services – Helping Organisations to Succeed

Audit Objective — To provide assurance that the Council process meets Homes England Capital Funding Guide requirements and any issues identified are rectified.

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	0
Priority 2	2
Priority 3	1
Total	3

Risks Reviewed	Assessment
Non-compliance with Homes England Capital Funding Requirements leading to a loss of available funding for the provision of affordable housing.	Medium

Key Findings

All relevant documents relating to the property as set out in the requirements in the CFG (Capital Funding Guide) are not contained within a comprehensive file scheme.

Cost data taken from the finance system (e5) and Voids Repairs system (Open Contractor) does not reconcile and we were unable to verify which is the primary financial record for repairs undertaken.

Where audit questions that form part of the Homes England compliance checklist are not applicable to the properties in question, it should be documented that these have been considered even if no action taken. This would ensure that there is a complete record for each annual assessment. We have produced a self-assessment checklist to assist with this requirement.

Audit Scope

The Homes England scheme requires the independent auditor reviews scheme information contained in the provider's files and Homes England's Investment Management System (IMS). The independent auditor is required to complete all the questions in the checklist, setting out all audit findings against published Homes England policy and procedures.

This audit was performed as an assurance piece of work using the IMS format for one property included in the original submission in 2022 (83 Bulford, TA21 8DH). We also assessed whether necessary evidence is retained to demonstrate compliance to the Capital Funding Guide.

Next Steps

The Council should ensure that they are familiar with the requirements of the Capital Funding Guide before the next annual Homes England compliance audit is due to be completed along with the actions below. It would be prudent for officers to be familiar with the Compliance Audit Checklist schemes not delivered through Strategic Partnership Contracts as well. To help ensure compliance officers should run through a self-assessment (example provided) whilst utilising the funds to support compliance with the Homes England Capital Funding Guide. This should be retained in the scheme file as evidence. An officer should be appointed with oversight for ensuring compliance with the Homes England Capital Funding requirements.

Page 619

Mental Health Care Plans/Financial Decision Making – Follow Up – June 202

Mental Health Care Plans/Financial Decision Making – Final Follow Up Report – June 2023

Follow Up Audit Objective

To provide assurance that agreed actions to mitigate against risk exposure identified within previous Limited opinion audit reports have been implemented.

Follow Up Progress Summary

Priority	Complete	In Progress	Not Started	Summary
Priority 1	0	0	0	0
Priority 2	4	0	0	4
Priority 3	0	0	0	0
Total	4	0	0	4

Follow Up Assessment

Two original Mental Health audits, completed in 2017/18 and 2019/20 both received a limited assurance opinion. The agreed outcomes of the first audit were superseded by the second but both were reassessed in a follow up audit in July 2022.

We sought to review the outstanding actions from the July 2022 report to ensure they have been completed as reported to the Audit committee in November 2022.

Key Findings

There is now an electronic financial agreement with an online process for completion. This information has been shared across the wider team ensuring that everyone understands the process. New members of the team are made aware of this during induction.

The finance and community teams now all use Eclipse. This ensures there is a clear audit trail and that documents can be shared quickly and efficiently online.

The team now have a Power BI report that displays in real time, the number of overdue reviews and by how many days. This allows the team to have a visual of their progress and highlight any key reviews for prioritisation.

Summary

Since the last audit follow up in July 2022, the team have worked to iron out that last few remaining actions. With new online systems in place, information is shared more easily and can be available at the click of a button, removing barriers sometimes in place with physical paperwork.

The team now have live reporting on the number of overdue reviews, which can highlight areas for escalation and provide oversight at a glance.

In conclusion, the team have pushed through to close out all remaining actions and provide a better service for users and themselves in the process.

Education Safeguarding Complaints & Concerns - Follow Up – September 2023

Education Safeguarding Complaints Follow Up – Final Report – September 2023

Somerset Council

SWAP INTERNAL AUDIT SERVICES Helping Organisations to Succeed

Follow Up Audit Objective

To provide assurance that agreed actions to mitigate against risk exposure identified within the 2021/22 Limited opinion audit of Education Safeguarding Complaints and Concerns report have been implemented.

Follow Up Progress Summary

Priority	Complete	In Progress	Not Started	Summary
Priority 1	2	0	0	2
Priority 2	2	1	0	3
Priority 3	3	0	0	3
Total	7	1	0	8

Follow Up Assessment

The original audit of Education Safeguarding Complaints and Concerns was completed in April 2022 and received a Limited assurance opinion. The objective of the original audit was to establish whether there were effective processes in place for resolving safeguarding complaints and identifying emerging safeguarding issues.

The follow up audit has found that the majority of actions relating to the EES team have now been completed. Key findings from the audit follow up have been summarised below.

Key Findings

The Safeguarding Concern Enquiry process document requires some enhancement to include detail of how the EES will monitor action plan completion.

Managers and other staff are now in place and provide an appropriate level of knowledge of education safeguarding complaints and concerns.

Whilst the Safeguarding Concern Enquiry document requires some minor amendments, it clearly sets out the end-to-end process for safeguarding complaints and concerns.

Further Information

Since the original audit there has been an Education Redesign restructure, with the previous ESS team being split into the Education Engagement Service (EES) and Inclusion teams.
Safeguarding complaints and concerns relating to education providers fall within the role and responsibilities of the new EES team.
Concerns and complaints that are linked to inclusion (e.g. attendance, SEND, Early Help) are now dealt with by the Inclusion Team.
The procedures audited relate to the EES team. The Inclusion Team were approached to discuss the procedures that they follow but did not engage in the audit process.

Testing has been performed in relation to all priority 1 and 2 actions and supporting evidence obtained to support the implementation of actions. Follow-up of the priority 3 actions is based on self- assessment by the responsible manager.

It is noted that considerable progress has been made by the EES team in respect of recording and resolving safeguarding complaints arrangements.
The introduction of a written procedure document has provided clarity and the new EES team have worked effectively to ensure its implementation.

Benefits Realisation Approach – Advisory – August 2023

SC Benefits Realisation Approach – Internal Audit Report – August 2023

Audit Objective To provide advice & support on the Benefits Realisation process developed to track LGR benefits which will be used as blueprint for future change initiatives.

Background and Scope

The council developed a benefits realisation process for use during the LGR programme. It is intended that this process will be the blueprint for future change initiatives at Somerset Council, including the Transition and Transformation programmes and other change initiatives. The risk of failing to properly track, manage and prioritise benefits would impact the delivery of improvement outcomes and strategic objectives, reduced impact of investment and would contribute to an unsustainable MTFP.

Conclusion

The proposed systems used for identifying, recording, monitoring and reporting on benefits identified within LGR and other Council projects are still in the process of being developed and embedded among staff. As a result, it is not possible to place any assessment on the overall effectiveness of benefit management process but to highlight areas of future development and importance in order to support the system in achieving its objectives in the long term. We have summarised key findings below:

The process for identifying, defining & monitoring benefits from the outset of change initiatives has been well considered and, if used effectively by staff, will provide the organisation with good intelligence to prioritise change initiatives (based on understanding of the benefits to be realised) & track these through to completion. The process is supported by the benefits tracking app provides a good system for capturing benefits to allow for central monitoring & oversight. The app provides a pro forma improving the likelihood that recorded benefits will provide consistent information including, but not limited to, ensuring benefits are linked to overarching corporate objectives.

Although the structure of the app will support in achieving the objectives of benefits tracking there is a need to develop the overarching system controls. E.g. system controls over changing initial data, that could result in initial baseline data or target data changing and would only be picked up within a review.

Baseline data for measuring benefits – the system is capable of capturing this and there is section for describing how its calculated but there is no mandated evidence to be provided. A benefit of retaining evidence would be to support comparison to baseline at a later date, without the evidence retained this may become harder if the same data cannot be reproduced.

The benefits tracking system needs to be supported by strong governance arrangements which at point of testing were still in development – however updates have since been provided showing the link to MTFP Board (Executive Members and Directors) & Scrutiny. Risk assessment of LGR financial benefits that are committed into the MTFP has been undertaken and is a practice intended for wider roll out to ensure proactivity in financial benefits management. There are plans to report to the TTCB, however there also needs to be clear accountability on benefit owners to provide updates and appropriate scrutiny arrangement where key benefits are not being properly updated.

Data currently stored in the benefits tracking app is mostly limited to benefits already identified in the MTFP & identified through the LGR business case. We identified that a number of LGR non-cash benefits are not as well defined as they could be and were not time oriented, these are expected to be better defined over time if/when these benefits become more mature. There are also plans to embed quality assurance into the gateways & reporting which will develop the quality of information going forward.

Currently there are very few users of the benefits tracking app, however, it is intended that it will be the responsibility of benefit owners to update this going forward. Given the number of changes taking place at Somerset Council, particularly with staff restructures, there will be significant work in ensuring that staff are engaged with the system firstly to populate the system and secondly to use it to regularly update the benefits for which they're responsible for – ensuring ownership end to end.

Further information

More detailed reporting and actions to be taken are captured in the following pages broken down into the following themes; Benefits Tracking App, LGR Benefits, Embedding Into Existing Processes including Staff Engagement, Governance. Each section includes a number of areas for development that can be considered to develop the system further.

As significant work is being undertaken, areas identified in this review are already subject to change. As the approach is still in the early stages of being rolled out, we are not at this stage able to assess how well the process is being used, a further review may be required at a later stage to provide assurance that the process is meeting its objectives.

Table 1: Internal Audit Plan

Audit Type	Audit Name	Directorate	Opinion	No of Rec	1 = Major	↔	3 = Medium
					Recommendation		
					1	2	3
Complete							
Assurance	Schools Financial Value Standard (SFVS) Theme Report (22-23)	Children's Services	Limited	7	1	5	1
Assurance	Public Health – Reaching Areas of Deprivation – Smoking (22-23)	Public Health	Advisory	-	-	-	-
Advisory	Cifas Support – Blue Badges 2022/23	Adult Services	Advisory	-	-	-	-
Assurance	Adults – Eclipse Benefits Realisation (22-23)	Adult Services	Limited	2	-	2	-
Grant Certification	Supporting Families Claim 1 22-23	Children's Services	Advisory	-	-	-	-
Follow up	Mental Health Follow UP	Adult Services	Advisory	-	-	-	-
Grant Certification	LEP Growth Deal - Yeovil Western Corridor – 22/23	Climate and Place	Certified	-	-	-	-
Grant Certification	LEP Growth Deal – Toneway – 22/23	Climate and Place	Certified	-	-	-	-
Grant Certification	LEP Get Building Fund – Dunball – Junction 23 22/23	Climate and Place	Certified	-	-	-	-
Assurance	**NEW:** Homes England Audit Scheme – Checklist Compliance	Communities	Limited	3	-	2	1
Grant Certification	LEP – Somerset Rivers Authority 22/23	Climate and Place	Certified	-	-	-	-
Grant Certification	LEP Growth Deal - Mobile Boost 22/23	Climate and Place	Certified	-	-	-	-
Grant Certification	LEP Get Building Fund – Junction 25 – 22/23	Climate and Place	Certified	-	-	-	-
Grant Certification	LEP Get Building Fund – digital innovation centre 22/23	Climate and Place	Certified	-	-	-	-
Grant Certification	LEP Get Building Fund – iaero fit out 22/23	Climate and Place	Certified	-	-	-	-

Audit Type	Audit Name	Directorate	Opinion	No of Rec	1 = Major	↔	3 = Medium
					Recommendation		
					1	2	3
Grant Certification	LEP Get Building Fund – Trenchard Way – 22/23	Climate and Place	Certified	-	-	-	-
Grant Certification	**NEW:** SDC Home Upgrade Grant (HUG) 2	Climate and Place	Certified	-	-	-	-
Assurance	Benefits Realisation Framework	Strategy, Performance and Localities	Advisory	1	-	1	-
Follow up	Education Safeguarding Complaints & Concerns Follow Up	Children's Services	Advisory	1	-	1	-
Grant Certification	**NEW:** Wells Enterprise Centre	Climate and Place	Certified	-	-	-	-
Grant Certification	**NEW:** Wiveliscombe Enterprise Centre	Climate and Place	Certified	-	-	-	-
Draft							
Grant Certification	**NEW:** Bruton Enterprise Centre	Climate and Place					
Assurance	**NEW:** Norton Sub-Hampdon Primary School	Children's Services					
Assurance	CLA Placements Contract and Procurement	Children's Services					
Assurance	Taunton Town Council - Transfer of Assets	Communities					
Assurance	**NEW:** DfE Post 16 Education Sub-Contracting	Children's Services					
Grant Certification	SDC Home Upgrade Grant (HUG) 1	Climate and Place					
In Progress							
Advisory	Recommendation Tracking	All					
Assurance	Direct Payments - (Adults)	Adult Services					
Assurance	Payroll – Staff Transfers (22-23)	Strategy, Performance and Localities					

Audit Type	Audit Name	Directorate	Opinion	No of Rec	1 = Major	↔	3 = Medium
					Recommendation		
					1	2	3
Grant Certification	LEP - Growth Deal - BDUK	Climate and Place					
Grant Certification	Covid Outbreak Management Fund x5 (SCC, SWT, SDC, MDC, SSDC)	Public Health					
Assurance	Registrars	Communities					
Grant Certification	Local Transport Capital Block Funding	Climate and Place					
Assurance	**NEW:** Theatres Governance & Financial Controls	Communities					
Advisory	Octagon Theatre Project Support	Communities					
Assurance	Health and Safety Governance (Culture)	Strategy, Performance and Localities					
Investigation	Housing Tenancy Fraud X2	Communities					
Investigation	**NEW:** Procurement Card Investigation	Resources and Corporate Services					
Investigation	**NEW:** Complaints Process Adults	Adults Services					
Investigation	**NEW:** Housing 1	Communities					
Investigation	**NEW:** Housing 2	Communities					
Advisory	Fraud Referrals, including Revenues & Benefits	Resources and Corporate Services					
Advisory	Commercial Investments	Resources and Corporate Services					
Advisory	**NEW:** Schools Balances	Children's Services					
Grant Certification	**NEW:** Homes England Capital Funding Grant	Communities					
Assurance	DFG/Better Care Fund	Adult Services					

Page 626

Audit Type	Audit Name	Directorate	Opinion	No of Rec	1 = Major	↔	3 = Medium
					Recommendation		
					1	2	3
Assurance	IT Asset Infrastructure	Resources and Corporate Services					
Advisory	**NEW:** Mortuary Capacity	Communities					
Assurance	Housing Landlord Health & Safety compliance– Fire Safety	Communities					
Assurance	Fraud Risk Assessment	Resources and Corporate Services					
Assurance	**NEW:** Financial Controls Assessment post 1 April 2023	Resources and Corporate Services					
Assurance	Supporting Families Quarter 2 Claim (Sep)	Children's Services					
Assurance	**NEW:** Children’s Invoicing CLA and SEND	Children’s Services					
Not started							
Assurance	Debt Management	Resources and Corporate Services					
Assurance	Financial Control and Reporting (budget monitoring)	Resources and Corporate Services					
Assurance	Microsoft Dynamics Post Implementation Review/Project Support	Resources and Corporate Services					
Assurance	Procurement Cards	Resources and Corporate Services					
Certification	Emergency Active Travel Fund	Climate and Place					
Advisory	Brewhouse Theatre Support	Communities					
Assurance	ALMO KPI Alignment	Communities					
Advisory	Environmental Health Project Support	Communities					

Audit Type	Audit Name	Directorate	Opinion	No of Rec	1 = Major		3 = Medium
					Recommendation		
					1	2	3
Assurance	Creditors	Resources and Corporate Services					
Advisory	Baseline Assessment for Fraud Maturity	Resources and Corporate Services					
Advisory	**NEW:** Legacy SDC Revenues and Benefits System project support	Resources and Corporate Services					

Deferred to Q3/Q4

Audit Type	Audit Area	Directorate	Change Reason
Assurance	Housing Landlord health and safety compliance – Electrical Safety	Communities	Audits on Fire Safety and Damp & Mould have been prioritised. This has been earmarked for later in Q3 or Q4 of the 23-24 audit plan. .
Assurance	Flood & Water Management	Climate and Place	Recent flooding incidents has pulled staff time in. Service Director keen for the audit, timing potentially in October.
Assurance	Asset Management	Resources and Corporate Services	
Assurance	Disaster Recovery	Resources and Corporate Services	
Assurance	CIFAS – Blue Badges 23-24	Adult Services	
Assurance	PRU and Behaviour Partnerships	Children's	

This page is intentionally left blank

Somerset Council

Risk Management Update

Executive Member(s): Cllr Liz Leyshon
Local Member(s) and Division: All
Lead Officer: Jason Vaughan, Director of Resources and Corporate Services
Author: Angela Farmer, Equality and Risk Manager, and Pam Pursley Risk Manager
Contact Details: angela.farmer@somerset.gov.uk and pam.pursley@somerset.gov.uk

Summary / Background

1. To update Members of the Audit Committee on the current Strategic Risks of the Council and the work that is ongoing to develop the risk management function for the Council.

Recommendations

2. The Executive / Lead Member / Officer agrees

   a. To note the current strategic risks for Somerset Council and where that risk sits against the Council's 4 priorities.

   b. To note the ongoing work to continue to develop the risk management function of the Council.

Reasons for recommendations

3. 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).

Other options considered

4. No other options were considered

Links to Council Plan and Medium-Term Financial Plan

5. The management of risk has a direct link to the Council's 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.

Financial and Risk Implications

6. The risk implications are set out in the report.

Legal Implications

7. There are no Legal implications.

HR Implications

8. There are no HR implications.

Other Implications:

Equalities Implications

9. There are no Equality implications in this report.

Community Safety Implications

10. There are no community safety implications in this report.

Climate Change and Sustainability Implications

11. There are no climate change or sustainability implications in this report.

Health and Safety Implications

12. There are no health and safety implications in this report.

Health and Wellbeing Implications

13. There are no health and wellbeing implications in this report.

Social Value

14. There are no social value implications in this report.

Scrutiny comments / recommendations:

15. Scrutiny has not considered this report.

Background

16. Somerset Council currently hold 15 strategic risks as of 11th September 2023. Appendix One sets out 2 different approaches:

    1. By using a matrix approach to show where the Council's risk sits in respect of current risk score
    2. By the Council's 4 priorities to demonstrate where the strategic risks sits in respect of the priorities, together with, in brackets, the current risk score for each risk

17. Since the last report to Committee in June, there have been 2 new risks added to the register as follows:

ORG0064	General Housing – failure to maintain delivery of affordable housing through third parties (RPs) and direct council delivery
ORG0075	LCN – Failure to deliver the key commitment of the business case, to deliver LCN's

18. For the information of the committee, there is also an overview of the service levels risks of the council, including where high/very high risk sits. There are a total of 149 risks as of 11th September.

19. In respect of ongoing work that is being undertaken to develop the risk management function of the Council, slide 7 in Appendix One, sets out the current work going on. Highlights include:

    1. Upgrade of the JCAD risk management system, with the new system in place by October 2023
    2. Development of the Risk Appetite for Somerset Council

Background Papers

20. The strategic risk register for Somerset Council.

Appendices

- Appendix One – Risk Management Update

Risk Update

19TH September 2023

Pam Pursley and Angela Farmer

Somerset Council

Overview

Today:

1. Look at overview of Strategic risk against matrix profile
2. Look at Strategic risk against Council Plan 4 priorities
3. Overview of service risks
4. Update on risk management development for Somerset Council

Outcome required today:

Approval of register before reporting to Audit Committee – 28th Sept

Strategic risk register - matrix view

Overview

1. 15 live strategic risks

   2 new risks added since last report

   1. Housing – failure to maintain delivery of affordable housing
   2. LCN – Failure to deliver key business case commitment

2. Overview of where risk sits based on current risk score:

Likelihood			
Very Likely - 5 ➢ 90%	15	20 1	25 2
Likely - 4 50-90%	12	16 5	20 2
Possible - 3 25-50%	9	12 4	15 1
Impact	3 – Significant	4 - Major	5 – Critical

Medium profile

High profile

Very High profile

Strategic risk register - by council plan priorities

Council Plan priority	Strategic Risk headline
A fairer, ambitious Somerset	1. Sustainable MTFP (25) 2. Supply chain (16) 3. Commercial investments (16) 4. VCFSE (12) 5. Budget Overspend (25) 6. Increase in fraudulent activity (20)
A flourishing and resilient Somerset	1. Health and Safety management (16) 2. LCN (12) 3. Organisational resilience (20) 4. Inability to recruit and retain staff (20) 5. Housing - failure to maintain delivery of affordable housing (16)
A greener, more sustainable Somerset	1. Climate change (16)
A healthy and caring Somerset	1. Protecting children (15) 2. ASC – Failure to meet statutory duty (12) 3. ASC – transformation doesn't achieve its financial targets (12)

Service risks - by directorate

Directorate	Total number of risks	Number from total risks that are H/VH
Adults	16	4
Childrens	15	3
Public Health 1. Health protection 2. Public health nursing	10 4 3	4 1
Resources and corporate support 1. Directorate level 2. Asset management 3. Finance and procurement 4. ICT	 1 2 4 1	 1

Service risks - by directorate

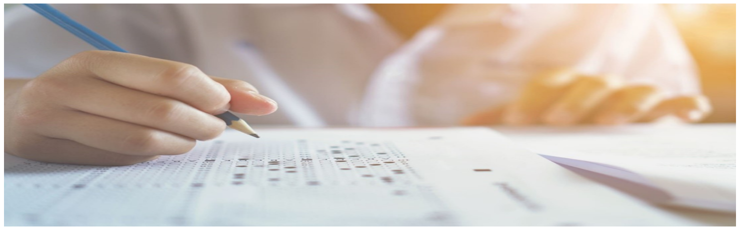
Directorate	Total number of risks	Number from total risks that are H/VH
Climate and Place		
1. Directorate	11	7
2. Climate and environment	9	
3. Economy and employment	2	
4. Infrastructure	5	
Community Services		
1. Directorate	12	10
2. Culture	5	
3. Customer	9	4
4. Housing	22	2
5. Regs and ops	3	
Strategy and performance		
1. Data Protection	4	1
2. Health and Safety	1	
3. Operations	8	1
4. Resources and workforce	2	

Risk Management developments – September 2023

1. JCAD
    1. New version now in test and are testing localised changes
    2. Aim to make live week commencing 2nd October 2023 with supporting training available
    3. Will be branded as Somerset Council
2. Corporate Risk Management Group
    1. First meeting in October and will be using group to develop and evolve JCAD and the wider risk management framework including;
3. Risk Appetite
    1. Consideration of Somerset Council's risk appetite will present to the November CLT
    2. Will be looking to set the appetite by categories that reflect where we are, and the appetite can evolve as the Council evolves
4. Fraud risks
    1. Work done to bring all the Council's baseline fraud risk assessments together to get an overview of where potential risk sits.
    2. Awaiting a further baseline assessment for Somerset Council by SWAP
5. Ongoing development of service risks
    1. Ongoing work with service directors and directorate
6. The ongoing development work for risks relating to Transition, Transformation and Change, managed through a separate register currently

Time for Questions

Contact email



Audit Committee Work Programme current - May 2024

Meeting Date	Item	Description	Lead Officer/contact	Draft report deadline	Final publication deadline
28th September 2023	External Audit Plan and Sector Update	To receive an update on the external audit timetable and audit work undertaken, and any initial findings	Grant Thornton	13th September 2023	20th September 2023
	Internal Audit update from SWAP	Progress report from SWAP on the status of the current Internal Audit Plan, noting any high risks identified	SWAP	13th September 2023	20th September 2023
	Improve the understanding of risk across the organisation	Improve the understanding of risk across the organisation	Pam Pursley / Angela Farmer	13th September 2023	20th September 2023
	Any Other Business			13th September 2023	20th September 2023
26th October 2023	Internal Audit update from SWAP	Progress report from SWAP on the status of the current Internal Audit Plan, noting any high risks identified	SWAP	11th October 2023	18th October 2023
	External Audit Plan and Sector Update	To receive an update on the external audit timetable and audit work undertaken, and any initial findings	Grant Thornton	11th October 2023	18th October 2023
	Risk Management Update	To Review the Somerset Council Strategic Risk Register	Pam Pursley/Angela Farmer	11th October 2023	18th October 2023
	Outstanding Statements of Accounts 21/22 & 22/23	To approve the 2021/2022 & 2022/2023 statement accounts for predecessor councils	Jason Vaughan	11th October 2023	18th October 2023
	Any Other Business			11th October 2023	18th October 2023
25th January 2024	External audit Annual Findings reports 22/23	To consider the matters raised in Grant Thornton's Annual Audit Findings reports for both Somerset Council and Somerset Pension Fund 22/23	Grant Thornton	10th January 2024	17th January 2024
	Statement of Accounts 22/23	To approve both the County Council's and Pension Fund's accounts, final Annual Governance Statement and Value for Money arrangements	Paul Griffin	10th January 2024	17th January 2024
	Internal Audit update from SWAP	Progress report from SWAP on the status of the current Internal Audit Plan, noting any high risks identified	SWAP	10th January 2024	17th January 2024
	External Audit Plan and Sector Update	To receive an update on the external audit timetable and audit work undertaken, and any initial findings	Grant Thornton	10th January 2024	17th January 2024
	Risk Management Update	To Review the Somerset Council Strategic Risk Register	Pam Pursley/Angela Farmer	10th January 2024	17th January 2024
	Medium Term Financial Reports 2024/2025	The review the medium Term Financial Plan Reports for 24/25 including Treasury Management, Non-Treasury Management, Flexible Capital receipts, Capital Strategy, MRP Statement.	Various	10th January 2024	17th January 2024
	Any Other Business			10th January 2024	17th January 2024
28th March 2024	Internal Audit Plan and Charter 2024-25	To review and approve the internal audit plan for 2024-25	SWAP	13th March 2024	20th March 2024

	Internal Audit update from SWAP	Progress report from SWAP on the status of the current Internal Audit Plan, noting any high risks identified	SWAP	13th March 2024	20th March 2024
	External Audit Plan and Sector Update	To receive an update on the external audit timetable and audit work undertaken, and any initial findings	Grant Thornton	13th March 2024	20th March 2024
	Risk Management Update	To Review the Somerset Council Strategic Risk Register	Pam Pursley/Angela Farmer	13th March 2024	20th March 2024
	Any Other Business			13th March 2024	20th March 2024
30th May 2024	Annual Report to Council	To approve the Committee's Annual report to Full Council	Jason Vaughan	15th May 2024	22nd May 2024
	Anti-Money Laundering, Anti-Fraud and Corruption, Anti-Tax Evasion, and Anti-Bribery Policies	To review the Anti-Money Laundering, Anti-Fraud and Corruption, Anti-Tax Evasion, and Anti-Bribery Policies	Donna Parham	15th May 2024	15th May 2024
	Internal Audit update from SWAP	Progress report from SWAP on the status of the current Internal Audit Plan, noting any high risks identified	SWAP	15th May 2024	22nd May 2024
	External Audit Plan and Sector Update	To receive an update on the external audit timetable and audit work undertaken, and any initial findings	Grant Thornton	15th May 2024	22nd May 2024
	Risk Management Update	To Review the Somerset Council Strategic Risk Register	Pam Pursley/Angela Farmer	15th May 2024	22nd May 2024
	Any Other Business				