



STATEMENT OF ACCOUNTS

2022/23

Version Control

Version 1	12 June 2023	Draft Statement of Accounts
Version 2	25 January 2024	Final Statement of Accounts

Jason Vaughan

Executive Director of Resources & Corporate Services (s151)
Cannards Grave Road, Shepton Mallet, Somerset, BA4 5BT

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Chief Finance Officer's Narrative Report

This narrative tells the story of the council in 2022/23, 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 statutory deadlines for 2022/23 the council's draft accounts must be published by 31 May 2023 and then audited by 30 November 2023.

This report provides an important opportunity to summarise the financial performance and position for Mendip in its final year and summarises the resources that will transfer to Somerset Council on vesting day 1 April 2023.

The restructuring of local government in Somerset took effect on 1 April 2023 with Somerset County Council and four district councils, including Mendip, being replaced with a new unitary authority – Somerset Council. Somerset Council will continue to deliver the services and functions previously provided in the two-tier structure.

Readers of the Statement of Accounts will be familiar with the many events affecting the UK. These include but are not limited to the lasting effects of the COVID-19 pandemic, struggling worldwide supply chains, high inflation, rising interest rates, global conflicts (particularly in Ukraine), and the energy crisis. These challenges all impact on individuals and organisations alike throughout our local community. Mendip Like all other local councils had to adapt to manage the implications of these influential factors.

Despite the financial pressures and increased risks, the council closed the financial year with a high degree of financial resilience, underpinned by carefully managed budgets, service delivery and financial reserves.

Mendip District Council– Key Information

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 53,858 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. The council encompasses 34 wards and 62 parishes.

As a shire district, the council delivered local services within a two-tier structure of principal local government authorities until 1 April 2023. In the two-tier structure, 'upper tier' services such as Adult and Child social care are provided by Somerset County Council and 'lower tier' services provided by Mendip.

The council is responsible for a wide range of services including (but not limited to):

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- Housing
- Homelessness prevention
- Planning
- Street cleaning
- Waste collection and recycling
- Crematorium and bereavement services
- Economic development
- Housing benefits
- Provision of off-street parking
- Regulatory services such as environmental health and licensing
- Council Tax and Business Rates administration
- Electoral registration and elections
- Building control- via Partnership
- Leisure and arts

New Somerset Council

The Somerset (Structural Changes) Order 2022 was made on 17 March 2022, coming into force the following day. The Order confirmed that Somerset's five councils will be replaced by one single council – Somerset Council. The new single council will provide both county and district services across the existing county area from 1 April 2023 to deliver high quality sustainable local services across the county along with effective leadership at both strategic and local levels.

Following local elections to Somerset County Council, held on 6 May 2022, those elected as County Councillors have taken responsibility for all current County Council services for their first year, and will continue as councillors of Somerset Council for a four-year term with next elections due in 2027.

Mendip Councillors continued to serve in their district roles until 1 April 2023. On that date all the Somerset district councils will be wound up and dissolved.

Extensive planning and preparation work has been undertaken with the five councils working together collaboratively to ensure the transition to the new unitary is a success. The five councils have shared implementation costs with Mendip contributing £514k to the LGR budget held by Somerset County Council. Mendip has also directly incurred other costs against its excess of £1m budget for Local Government Reform (LGR) in 2022/23 providing capacity to support the transition and ensuring minimal disruption to 'business as usual' service. The aim has been to keep costs to a minimum with most transitional work delivered within existing management and staff resources through prioritisation of activity.

Local Government Reform lead to the creation of a number of workstreams

Mendip staff lead or contributed to a number of workstreams, and these included: Assets optimisation, Customers Communities and Partnerships, Finance, Governance, People and Service alignment.

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The Governance Framework and Decision Making

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

To meet these responsibilities, the council acknowledges its duty to have in place sound and proper arrangements for the governance of its affairs, including a reliable system of internal control, and for reviewing the effectiveness of those arrangements. The governance framework comprises the systems and processes as well as the culture and values by which the council is directed and controlled. Through these, it accounts to, engages with, and leads the community. It enables the council to monitor the achievement of the strategic themes and expected outcomes as set out in our Corporate Strategy. The draft Annual Governance Statement went to Mendip's Audit Committee in March 2023.

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

The council of 47 elected Members has an Executive of Lead Members who are supported and held to account by Scrutiny Committees. Our Constitution sets out how the council operates, how decisions are made and the procedures for ensuring that the council is efficient, transparent and accountable to local people. It contains the basic rules governing the council's business including responsibilities and functions of the council, committees, the Executive and officers. It also contains the rules, protocols and codes of practice under which the council, its members and officers operate.

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

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Business Rates

Administration is by Capita on behalf of Mendip and ran smoothly with the actual collection rate up from 95.88% in 2021/22 to 96.33% in 2022/23. 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.

Council Tax

Administration by Capita on behalf of Mendip also ran well with the collection rate up from 96.31% to 97.02%. As with the year before, a more selective, considered approach to recovery was taken by trying to ensure where council taxpayers 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 Discretionary Hardship

The Mendip Council Tax Support scheme provides means tested help for both pension age and working age households. Nearly 5,000 households over the year received some extent of relief with the whole amount of relief totalling over £5 million. In addition, the council runs hardship schemes that provides extra help on top of this support scheme and for extra help in paying rent. Last year this meant extra help for 552 households, with relief totalling close to £240,000. This has helped the most economically vulnerable and those most in need.

The Corporate Strategy and Plan

The Corporate Plan 2020-2023.

Corporate Priorities

Listed below are the corporate priorities that applied to Mendip up to 31 March 2023 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.

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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 2020-2023. 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.

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Council Performance

During the year, performance was reported quarterly to Scrutiny and Cabinet, with the Q3 position presented in March 2023. In view of the dissolution of Mendip District Council on 1 April 2023, the full year performance for 2022/23 is not reported to Cabinet. From the Corporate Delivery Plan, as at the end of Q3 2022/23, there were a total of 14 remaining priority actions. The status of these priority actions, as at the end of Q3 2022/23, is as follows;

- 12 (86%) are green, 1 amber and 1 Red

There were no new risks added to the strategic risk register and two risks were closed in 2022/23.

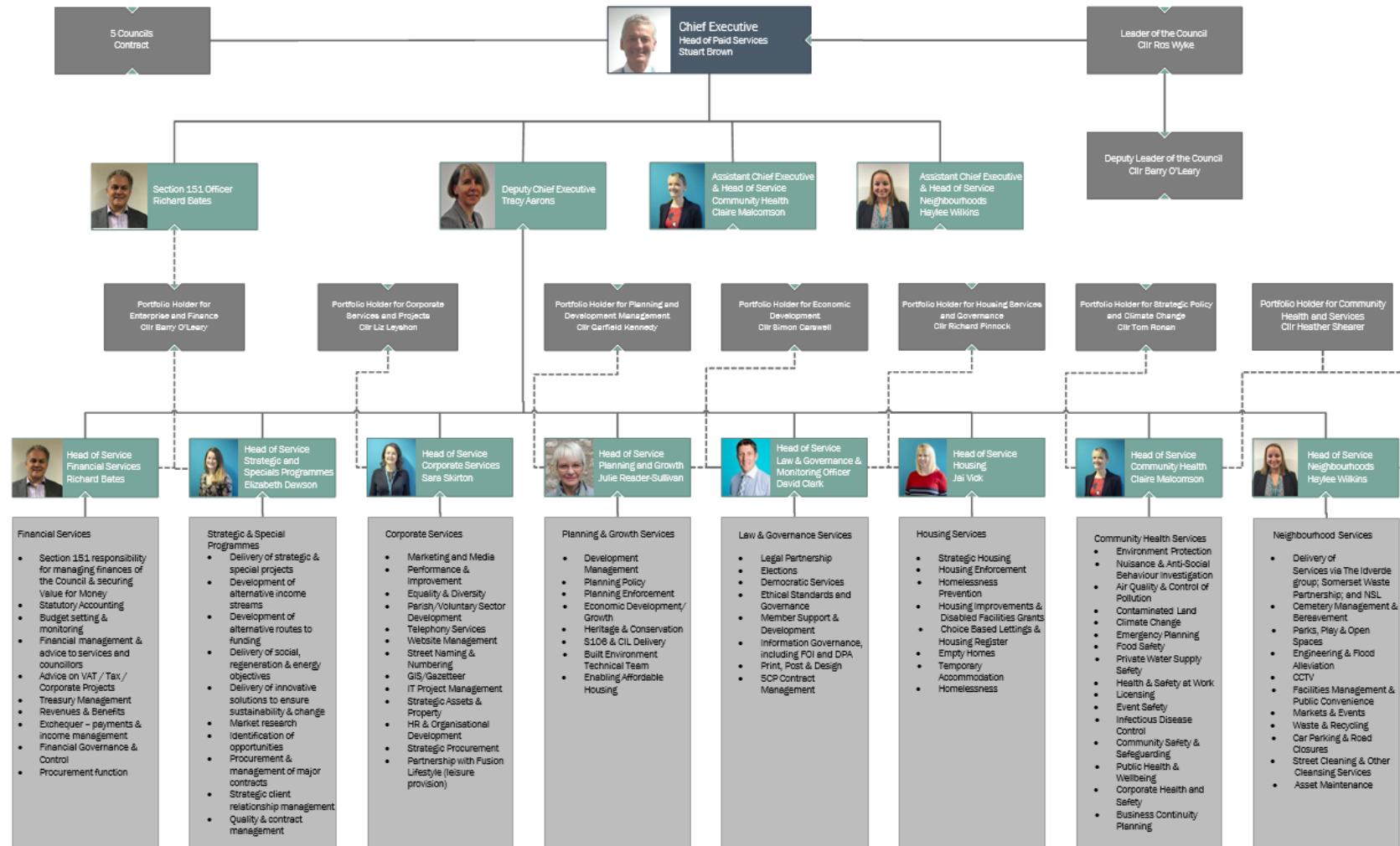
Our leadership and workforce

Our Constitution sets out the rules and procedures by which the council operates. 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. 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. 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. The Structure is shown on following page.

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Management Structure of the Council

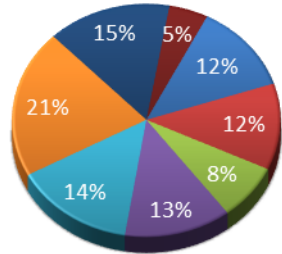


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Staffing Analysis as of 31 March 2023

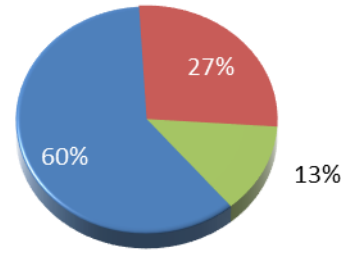
Workforce - During the last peer review the comment was made 'training and development is in the DNA of the council'.

Employees per Service



- Corporate Services
- Law & Governance
- Neighbourhood Services
- Finance
- Community Health Services
- Planning & Growth Services
- Housing Services

Workforce Summary



- Full time Employees
- Part Time Employees
- Temporary Staff

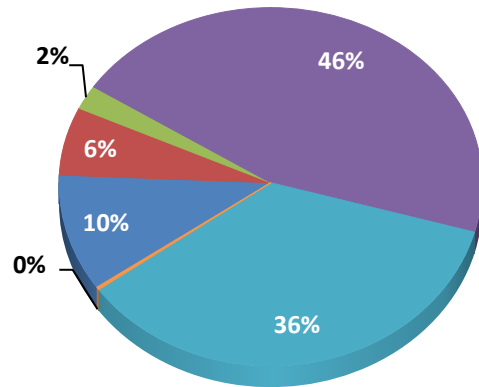
Mendip has outsourced some services for a number of years but as services such as Accountancy, HR and Procurement are insourced the number of staff has risen from the low level compared to similar sized authorities providing services in-house. At the end of March 2023, the council employed 204 staff, 136 full time and 68 part time employees with the remaining 29 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). All Mendip staff Tupted into the new council as at 1 April 2023.

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 46% of the cost of delivering our services.

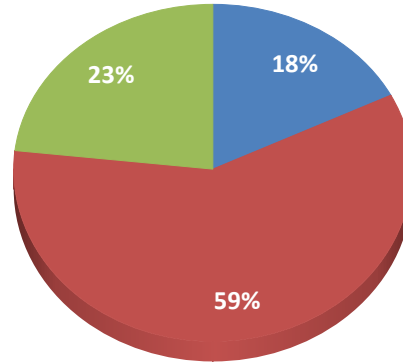
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Sources of Income



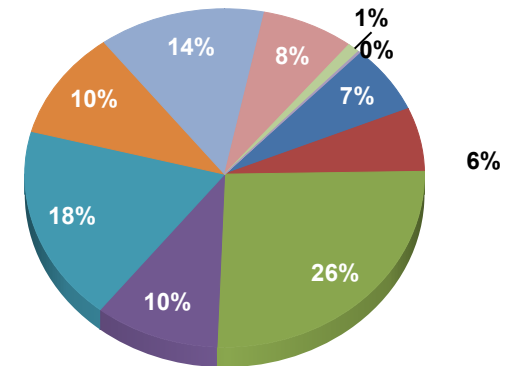
- Fees and charges (2021/22 - 10%)
- Interest and investment (2021/22 - 4%)
- Changes in fair value of investment properties (2021/22 - 0%)
- Council tax and rates (2021/22 - 46%)
- Government grants (2021/22 - 40%)

Types of Expenditure



- 3rd Party (2021/22 - 18%)
- Running Expenses (2021/22 - 60%)
- Staff Expenses (2021/22 - 22%)

Services delivered



- Corporate Services (7%)
- Law & Governance (6%)
- Neighbourhood Services (26%)
- Community Health Services (10%)
- Planning & Growth Services (18%)
- Housing Services (10%)
- 5 Council Contract (14%)
- Strategic Leadership Team (8%)
- Shape Housing Limited (1%)
- Enterprise (0%)

non-staff service expenditure (£38.6m 2021/22), funded from council tax, business rates, central government funding, fees and charges and interest and investment income.

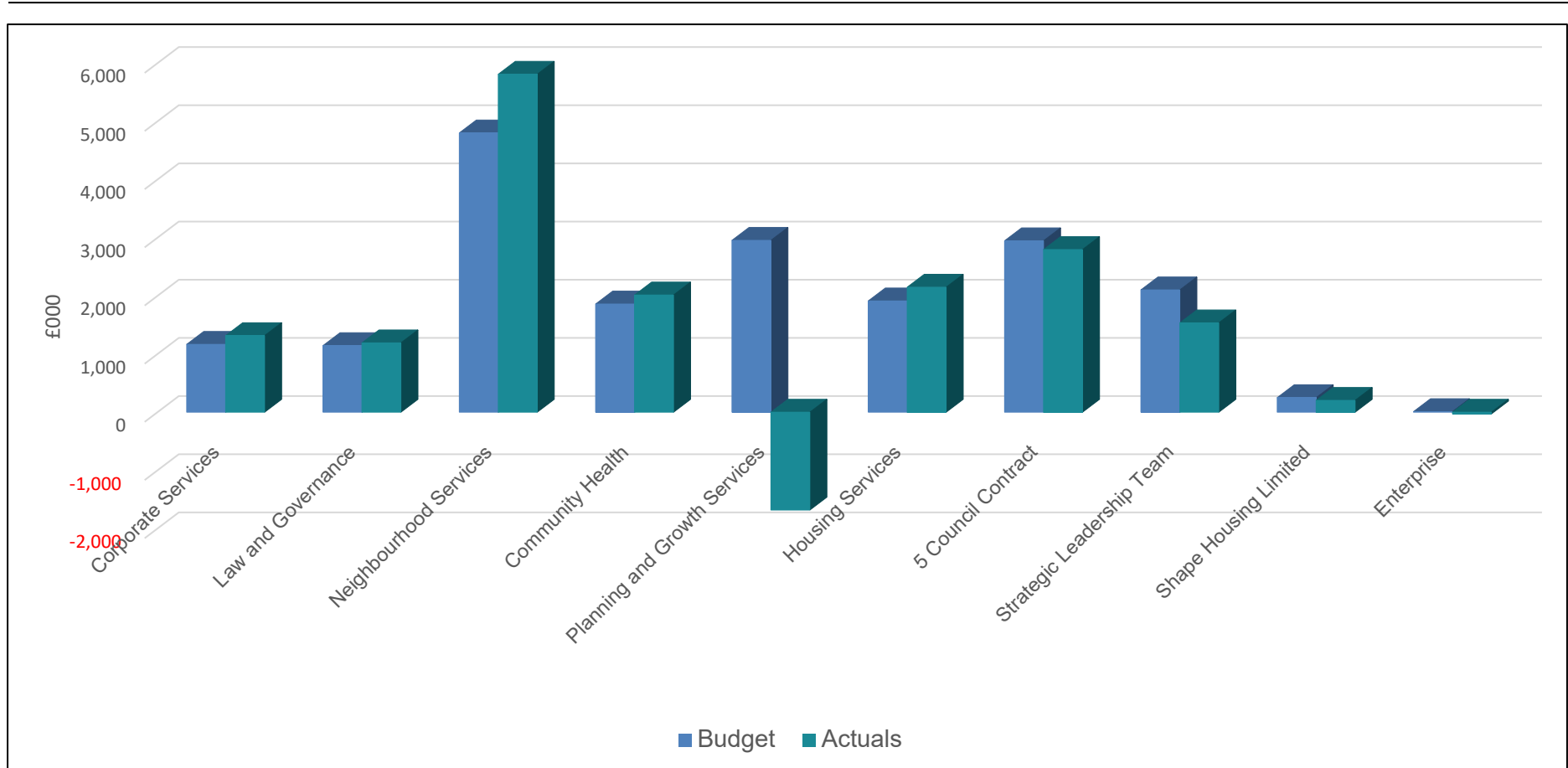
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The following table shows our actual revenue spending equated to an underspend of £909k. The surplus will be added to general balances, as the current level is just above the minimum level set by the Section 151 officer. As a result, the council has adequate reserves to pass over to Somerset Council's balances into 2023/24. 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	Net £000	(Under) / Overspend £000	(%)
Corporate Services	1,166	1,316	150	13%
Law and Governance	1,145	1,192	47	4%
Neighbourhood Services	4,801	5,810	1,009	21%
Community Health	1,860	2,015	155	8%
Planning and Growth Services	2,954	(1,682)	(4,636)	(157%)
Housing Services	1,913	2,149	236	12%
5 Council Contract	2,947	2,796	(151)	(5%)
Strategic Leadership Team	2,102	1,536	(566)	(27%)
Shape Housing Limited	250	203	(47)	(19%)
Enterprise	10	(29)	(39)	(390%)
Cost of Group Services	19,148	15,306	(3,842)	20%
Non Service Costs	(19,148)	(16,215)	2,933	15%
Gross Overspend	0	(909)	(909)	
Outturn Surplus after Earmarked Reserves			(909)	

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The significant variances over £200k are:

Neighbourhood Services – Overspend £1m

- The main variance is due valuation changes to office accommodation and to the shortfall in car parking income of around £0.3m, recognising the difficulties in predicting a realistic budget post the pandemic.

Planning and Growth – Underspend £4.6m

- A substantial £5m grant relating to Glastonbury Town Fund was received in year. A shortfall in planning fees of around £475k. This is due to the continuing phosphates issues and a slowdown of business activity due to economic uncertainty.

Strategic Leadership Team – Underspend £566k

- The main factor for the positive variance is a result of the budget for pay award (above budget due to inflationary pressures in 2022/23) being held centrally in this service.

NON-SERVICE – Overspend £2.933m

- £5m is reversal of Glastonbury Town Fund Grant received in Planning and Growth. The positive variance is due to an additional £456k for renewables and better collection rates for NDR, of which Mendip's share is £280k.

The pressures on budgets in services are offset by:

Savings from staff vacancies (e.g., Procurement where we are now working closely with the County Council)

Additional interest receipts of £280k due to increased interest rates

Additional grant receipts for New Burdens imposed upon us by Government and COVID-19 income.

Capital

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).

The year-end position of the council's capital programme saw expenditure of £4m against an overall budget of £6.5m, giving an in-year variance of £2.5m. The main areas of expenditure were in planning and related to Glastonbury town deal and multiuser pathways.

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Services	Budget	Actual	Outturn Variance
	£000's	£000's	£000's
Corporate Services			
Capital - Strategic Asset Management	100	156	56
Neighbourhood Services			
Capital - Operational Assets & Contracts	178	463	285
Planning & Growth Services			
Capital – Planning	4,844	2,487	(2,357)
Housing Services			
Capital – Private Sector Housing	1,008	851	(157)
Enterprise			
Capital - Transformation	0	47	47
5 Council Contract			
Capital – 5Council Contract	215	0	(215)
Strategic Leadership Team			
Capital - Corporate Finance	175	0	(175)
Cost Of Group Services	6,520	4,004	(2,516)

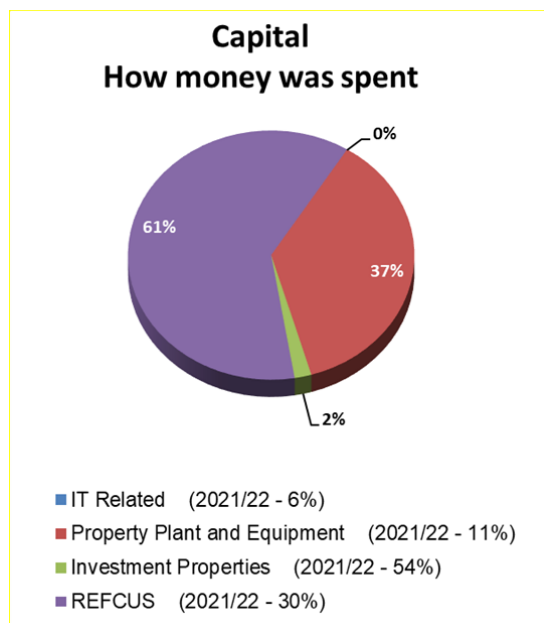
The main variance relates to Glastonbury town fund and this underspend will be carried forward into 2023/24.

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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 over financed by £104k due to additional receipts received in year, which will reduce future Minimum Revenue Provision (MRP) charges. MRP is the amount set aside for the repayment of debt as a result of borrowing made to finance capital expenditure. Our Capital Financing Requirement (CFR) has reduced from £59.073m to £58.626m, reduction of £448k, due to this additional financing and also our £344k MRP charge.

	2021/22 £000	2022/23 £000
Opening Capital Financing Requirement	59,329	59,072
Capital Investment		
Property, Plant and Equipment	452	1,465
Investment Properties	2,271	76
Intangible Assets	253	0
Revenue Expenditure Funded from Capital under Statute	1,253	2,463
Sources of Finance		
Capital Receipts	(761)	(447)
Government Grants and Other Contributions	(3,367)	(3,135)
Sums set aside from revenue		
Direct Revenue Contributions	(25)	(525)
Minimum/Voluntary Revenue Provision (MRP/VRP)	(333)	(344)
Closing Capital Financing Requirement	<u>59,072</u>	<u>58,625</u>
Increase/(decrease) in underlying need to borrow (unsupported by Government financial assistance)	(257)	(447)
Increase or (decrease) in Capital Financing Requirement	<u>(257)</u>	<u>(447)</u>

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In year highlights

Capita and ITC cut over to Somerset IT services.

The exit of Customer Services, ICT Services and Land Charges prior to vesting day for the new council were successfully negotiated and are now implemented. The exit of Capita ICT to Somerset County Council's It happened in March 23 and was the result of months of planning to deliver a successful outcome.

Local Government Reform work on a number of workstreams

A number of staff were multi-tasking by delivering business as usual whilst involved or leading on the various workstreams of: Assets optimisation, Customers Communities and Partnerships, Finance (including being integral in delivering the new finance system Microsoft Dynamics in under a year), Governance, People, Service alignment. The extremely tight deadlines to deliver the new unitary council has resulted in staff balancing business as usual alongside their transition work.

Local Plan/Planning Policy

The 2022/23 year began with the news that a Judicial Review of Local Plan Part 2 (adopted in December 2021) had been given leave to proceed and would be heard at the High Court in October 2022. The Judgment by Hon Mr Justice Holgate was published on 16 December 2022. The Judge considered that the Inspector had misinterpreted the requirements of Local Plan Part 1 to provide for an additional 505 dwellings. He concluded that Inspector's Main Modifications recommended to council and their adoption could not therefore be considered legally sound. The Judge also upheld the claim regarding the legal compliance of the Sustainability Appraisal.

An updated Local Plan Part II (Post JR-version) and the policies map was published on 12 January 2023. Links to the amended LPP2, the full judgment and the order can be found on the website. The remainder of Local Plan Part II remains as adopted on 20 December 2021. This means other site allocations in the LPP2 and development management policies can be given full weight in planning decisions. Council must now review the deleted allocations and propose either these or alternative sites.

Several Supplementary Planning Documents have been adopted this year:

- Design and Amenity, which includes guidance on energy efficient construction, moving to net zero carbon and sustainable construction,
- Greenspace, with an accompanying evidence base detailing greenspaces across the district

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The council also endorsed the Net Zero Carbon Toolkit, produced by the Centre for Sustainable Energy as a guide to encourage low carbon development and a reference document for use in Development Management decision making. Sustainability Statements were also made a requirement for both major and minor planning applications (although not yet for householder applications).

Work has continued alongside other council teams to prepare for Biodiversity Net Gain. Phosphate Mitigation has also been a major issue, with work continuing to clarify the requirements for developers needing to put phosphate mitigation in place before development can go forward.

The Policy Team has also worked with local communities to prepare community led planning documents. These have included Neighbourhood Plans in Wells and Shepton Mallet and a trial project to develop a Design Code for Stoke St Michael. Wells City Council submitted their Neighbourhood Plan for Examination in March 2023.

Monitoring work has continued throughout the year with monitoring of 5-year land supply, housing completions, affordable housing completions, growth in villages, progress on major housing sites, accommodation for gypsies and travellers, economic development land and premises, village and community facilities and retail vacancies.

The Multi-User Path Project

The council committed to an ambitious plan to deliver multiuser paths within the Mendip Area to improve accessibility, health and wellbeing and access to work. 5km of the Strawberry Line has been built. This means that access for over 60% of the route has been achieved. 3 crossings have been designed. Free bikeability courses have been made available across the district. 30 bespoke bike racks have been installed and improved access to the active travel infrastructure across Mendip is now in place.

Glastonbury Town Deal:

The 2022/23 financial year has seen huge achievements for the Glastonbury Town Deal. Business Cases were completed and approved through the Local Assurance process by September 2022, and this enabled Government to confirm a £23.6 Million of Towns Fund grant. This award was the largest in the Southwest region and the highest per capita across England. The focus has moved to pre-construction activities including engaging build teams and securing permissions, consents and match funding. It is anticipated that at least two projects will be start on-site in 2023/24. Comms & PR activity includes two open day events, a new website and 20-minute film about the Town Deal (more details at www.glastonburytowndeal.co.uk)

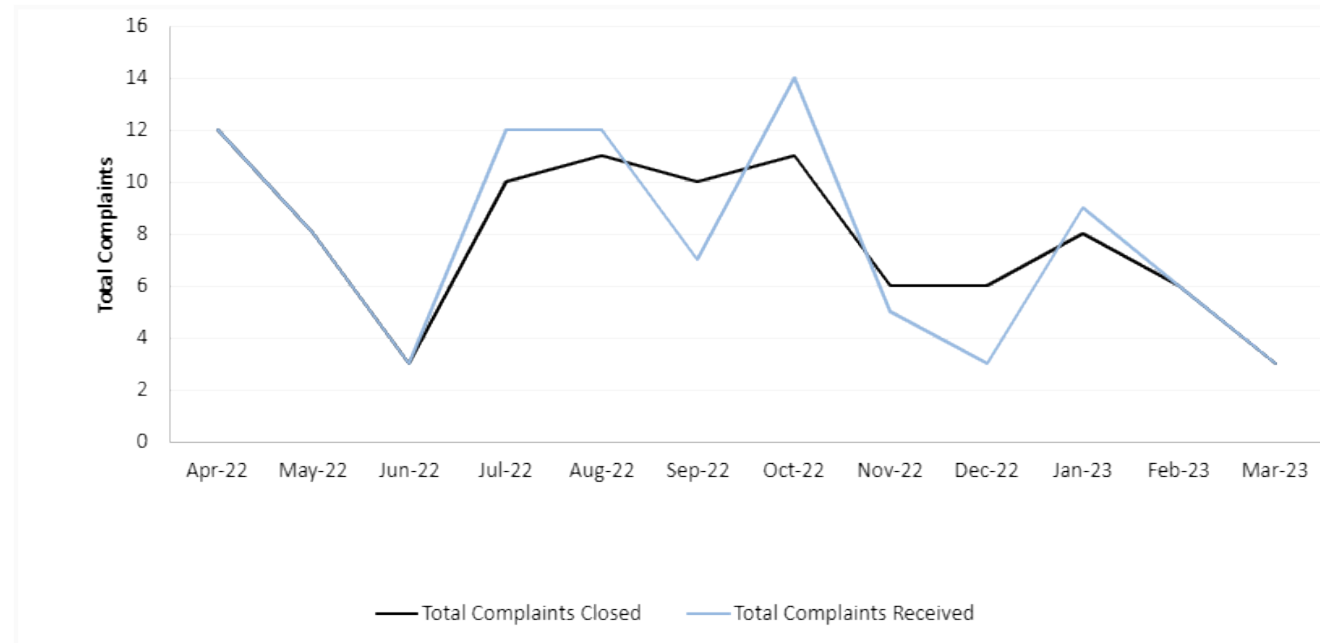
During the year payments were made of £140k in respect of Communities grants to 23 organisations, and £43k of Climate Change grants to 10 organisations.

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Summary of Monthly Complaints 2022/23

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.

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 £13.520m (£37.733 2021/22) shown in the Balance Sheet. This was a significant decrease of £24.213m compared to last year. The reduction in pension liability/reserve was primarily due to an increase in the discount rate from 2.6% to 4.8% as a result of the current economic climate and interest rates.

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Council's Earmarked Reserves

Description	General Fund £000	Earmarked Reserves £000
Balance as of 31 March 2022	(£2,414)	(£14,833)
Total Reserves Drawdown	£0	£6,217
Net Revenue Over/(Under) spend	(£909)	£0
New Earmarked Reserve Requests of service underspends	£0	(£139)
Proposed Balances as of 31 March 2023	(£3,323)	(£8,755)

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.

Impact of high inflation & interest rates

The current economic climate in the UK is that of very high inflation and high interest rates (in comparison with the past 10 years). In the case of inflation this will bring about increased pressures on the new Somerset Council budgets as higher costs from supplies work through into the council spend. Higher interest rates will result in the borrowing costs of the new council increasing, as lenders put up their rates to reflect the Bank of England base rate changes. However, the council will benefit from the increase in rates through improved investment returns from the interest it receives.

Economic climate

The May 2023 Bank of England Inflation Report can be read [here](#).

1 NARRATIVE REPORT

The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. At its meeting ending on 10 May 2023, the MPC voted by a majority of 7–2 to increase Bank Rate by 0.25 percentage points, to 4.5%. Two members preferred to maintain Bank Rate at 4.25%.

The Committee's updated projections for activity and inflation are set out in the accompanying May Monetary Policy Report. They are conditioned on a market-implied path for Bank Rate that peaks at around 4¾% in 2023 Q4 before ending the forecast period at just over 3½%.

There has been upside news to the near-term outlook for global activity, with UK-weighted world GDP now expected to grow at a moderate pace throughout the forecast period. Risks remain but, absent a further shock, there is likely to be only a small impact on GDP from the tightening of credit conditions related to recent global banking sector developments. Headline inflation has been falling in the United States and euro area, although core inflation measures remain elevated.

UK GDP is expected to be flat over the first half of this year, although underlying output, excluding the estimated impact of strikes and an extra bank holiday, is projected to grow modestly. Economic activity has been less weak than expected in February, and the Committee now judges that the path of demand is likely to be materially stronger than expected in the February Report, albeit still subdued by historical standards. The improved outlook reflects stronger global growth, lower energy prices, the fiscal support in the Spring Budget, and the possibility that a tight labour market leads to lower precautionary saving by households.

Although there are indications that the labour market has started to loosen, it is expected to remain tighter than in the February Report in the near term. The unemployment rate is now projected to remain below 4% until the end of 2024, before rising over the second half of the forecast period to around 4½%.

CPI inflation was 10.2% in 2023 Q1, higher than expected at the time of the February and March MPC meetings, with the upside surprise concentrated in core goods and food prices. Although still elevated, nominal private sector wage growth and services CPI inflation have been close to expectations.

CPI inflation is expected to fall sharply from April, in part as large rises in the price level one year ago drop out of the annual comparison. In addition, the extension in the Spring Budget of the Energy Price Guarantee and declines in wholesale energy prices will both lower the contribution from household energy bills to CPI inflation. However, food price inflation is likely to fall back more slowly than previously expected. Alongside news in other goods prices, this explains why the Committee's modal expectation for CPI inflation now falls back more slowly than in the February Report.

In the MPC's latest modal projection conditioned on market interest rates, CPI inflation declines to a little above 1% at the two and three-year horizons, materially below the 2% target. This reflects the emergence of an increasing degree of economic slack and declining external pressures that are expected to reduce CPI inflation. However, there remain considerable uncertainties around the pace at which CPI inflation will return sustainably to the 2% target.

2 STATEMENT OF RESPONSIBILITIES

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 is the Executive Director of Resources & Corporate Services (s151), Jason Vaughan.
- 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 2022/23 has received the full approval of Audit Committee.

Signed **Date**

**Councillor Mike Hewitson
Chairman, Audit Committee**

2 STATEMENT OF RESPONSIBILITIES

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 (s151) 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 2022/23 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 2023.

Signed **Date**

Jason Vaughan FCCA, CPFA. IRRV (Hons)
Executive Director of 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	2021/22			2022/23		
	Gross Expenditure	Gross Income	Net Expenditure	Gross Expenditure	Gross Income	Net Expenditure
	£000	£000	£000	£000	£000	£000
Corporate	1,158	(134)	1,024	1,038	(150)	888
Law & Governance	1,919	(877)	1,042	1,895	(1,121)	774
Neighbourhood	9,692	(4,357)	5,335	11,012	(4,544)	6,468
Community Health	2,445	(423)	2,022	2,773	(466)	2,307
Planning & Growth	5,608	(1,480)	4,128	6,799	(7,857)	(1,058)
Housing	3,794	(2,036)	1,758	3,760	(1,912)	1,848
5 Council Contract	21,714	(19,003)	2,711	20,390	(18,100)	2,290
Strategic Leadership Team	4,551	(3,731)	820	2,201	(905)	1,296
Transformation	55	0	55	292	0	292
Shape Housing Limited	1	(6)	(6)	2	201	203
Cost of Services	50,935	(32,047)	18,888	50,162	(34,854)	15,308
Other Operating Expenditure	4,869	(576)	4,293	5,466	178	5,644
Financial & Investment Income	2,272	(3,393)	(1,121)	2,213	(4,901)	(2,688)
Taxation and non-specific grant income and expenditure	15,836	(39,528)	(23,692)	13,046	(35,118)	(22,072)
(Surplus) or Deficit on provision of services	73,911	(75,543)	(1,632)	70,887	(74,695)	(3,808)
(Surplus) or Deficit on the Revaluation of plant, property & equipment assets			2,357			3,416
Remeasurement of the net defined benefit liability/(asset)			(14,927)			(25,615)
Other Comprehensive Income and Expenditure			(12,570)			(22,199)
Total Comprehensive Income and Expenditure			<u>(14,202)</u>			<u>(26,007)</u>

4 MOVEMENT IN RESERVES – PRIMARY STATEMENT

The Movement in Reserves Statement shows the movement from the start of the year to the end on the different reserves held by the council, analysed into 'usable reserves' (i.e. those 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.

2022/23	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 2022 brought forward	17,247	525	1,945	19,717	(18,583)	1,134
Movement in Reserves during 2022/23						
Total Comprehensive Income & Expenditure	3,808	0	0	3,808	22,199	26,007
Adjustments between accounting basis & funding basis under regulation (Note 4.01)	(8,977)	(525)	5,806	(3,696)	3,696	0
Increase or decrease in year	(5,169)	(525)	5,806	112	25,895	26,007
Balance at 31 March 2023 carried forward	12,078	0	7,751	19,829	7,312	27,141

4 MOVEMENT IN RESERVES – PRIMARY STATEMENT

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	10,251	11,590
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)	16,039	11,590
Balance at 31 March 2022 carried forward	17,247	525	1,945	19,717	(18,583)	1,134

5 BALANCE SHEET – PRIMARY STATEMENT

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 2022 £000	31 March 2023 £000
Property, Plant and Equipment	5.01		
Other Land and Buildings		18,398	14,419
Vehicles, Plant and Equipment		750	762
Infrastructure Assets		358	1,468
Community Assets		1,351	1,351
Surplus Assets		224	142
		21,079	18,142
Investment Properties	5.02	54,350	55,054
Heritage Asset	5.03	132	132
Intangible Assets	5.04	377	155
Long term Debtors	5.07	9,646	9,040
Long-term Assets		85,584	82,523
Assets Held for Sale	5.05	18	83
Short-term Investments		19,990	0
Short-term Debtors	5.07	10,712	6,163
Cash and Cash Equivalents	5.08	13,790	26,764
Current Assets		44,510	33,010
Short-term Borrowing	5.09	(51)	(51)
Short-term Creditors	5.10	(23,844)	(9,789)
Provisions	5.11	(1,340)	(777)
Current Liabilities		(25,235)	(10,617)
Long-term Creditors	5.10	(203)	(219)
Long-term Borrowing	5.09	(62,839)	(62,822)
Liability Related to Defined Benefit Pension Scheme	5.18	(37,733)	(13,520)
Grants Receipts in Advance - Capital	5.15	(2,049)	(1,185)
Grants Receipts in Advance - Revenue	5.15	(901)	(29)
Long-term Liabilities		(103,724)	(77,775)
Net Assets		1,134	27,141

5 BALANCE SHEET – PRIMARY STATEMENT

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 2022 £000	31 March 2023 £000
Usable Reserves	5.12		
General Fund		2,415	3,323
Earmarked Reserves	5.12.1	14,833	8,755
Capital Receipts Reserve		525	0
Capital Grants Unapplied		1,946	7,751
		19,718	19,829
Unusable Reserves			
Revaluation Reserve	5.13.1	13,981	10,487
Capital Adjustment Account	5.13.2	2,902	4,453
Deferred Capital Receipts Reserve	5.13.3	5,883	5,824
Pensions Reserve	5.13.4	(37,726)	(13,520)
Collection Fund Adjustment Account	5.13.5	(3,381)	192
Accumulated Absences Account	5.13.6	(242)	(124)
		(18,583)	7,312
Total Reserves		1,134	27,141

These financial statements replace the unaudited financial statements certified by Jason Vaughan, Executive Director of Resources & Corporate Services (s151) on 12 June 2023

Jason Vaughan FCCA, CPFA. IRRV (Hons)
Executive Director of Resources & Corporate Services (s151)

6 CASHFLOW – PRIMARY STATEMENT

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

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.

	2021/22	2022/23
	£000	£000
Net surplus or (deficit) on the provision of service	1,339	3,808
Adjustments to net surplus or deficit on the provision of services for non-cash movements (Note 6.01)	(1,393)	(5,989)
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (6.01)	(4,267)	(8,805)
Net cash flows from Operating Activities	(4,321)	(10,986)
Investing Activities (Note 6.02)	(6,391)	26,554
Financing Activities (Note 6.03 and Note 6.04)	13,966	(2,594)
Net increase or (decrease) in cash and cash equivalents	3,254	12,974
Cash and cash equivalents at the beginning of the reporting period	10,536	13,790
Cash and cash equivalents at the end of the reporting period (Note 5.08)	<u>13,790</u>	<u>26,764</u>

3 COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT – NOTES

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.

	2021/22			2022/23		
	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	700	(324)	1,024	751	(137)	888
Law & Governance	918	(124)	1,042	752	(22)	774
Neighbourhood	5,322	(13)	5,335	5,648	(820)	6,468
Community Health	1,796	(226)	2,022	2,170	(137)	2,307
Planning & Growth	3,804	(324)	4,128	3,953	5,011	(1,058)
Housing	1,633	(45)	1,678	1,888	40	1,848
5 Council Contract	3,062	(21)	3,083	2,289	(1)	2,290
Strategic Leadership Team	727	(93)	820	1,150	(146)	1,296
Transformation	34	(21)	55	289	(3)	292
Shape Housing Limited	(6)	0	(6)	203	0	203
Cost of Services	17,990	(1,191)	19,181	19,093	3,785	15,308
Other income and expenditure	(13,345)	7,175	(20,520)	(13,924)	5,192	(19,116)
(Surplus)/Deficit in year	4,645	5,984	(1,339)	5,169	8,977	(3,808)
Opening General Fund Balance	21,892			17,247		
Surplus/(Deficit) on General Fund	(4,645)			(5,169)		
Closing General Fund Balance	<u>17,247</u>			<u>12,078</u>		

3 COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT – NOTES

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 2022/23			
	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total Adjustments
	£000	£000	£000	£000
Corporate	(134)	(22)	19	(137)
Law & Governance	(13)	(21)	12	(22)
Neighbourhood	(788)	(36)	4	(820)
Community Health	(9)	(142)	14	(137)
Planning & Growth	5,216	(251)	46	5,011
Housing	159	(145)	26	40
5 Council Contract	0	0	(1)	(1)
Strategic Leadership Team	(96)	(46)	(4)	(146)
Transformation	0	(6)	3	(3)
Shape Housing Limited	0	0	0	0
Net Cost of Services	4,335	(669)	119	3,785
Other income and expenditure from the Expenditure and Funding Analysis	2,360	(740)	3,572	5,192
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	6,695	(1,409)	3,691	8,977

3 COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT – NOTES

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	Net Change for the Pensions Adjustments	Other Differences	Total Adjustments
	£'000	£'000	£'000	£'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

3 COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT – NOTES

Adjustments for Capital Purposes

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

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

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 COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT – NOTES

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.

	2021/22 £000	2022/23 £000
Expenditure		
Employee benefits expenses	10,793	10,786
Other services expenses	39,095	35,806
Depreciation, amortisation, impairment	1,419	3,568
Interest payments	1,319	1,318
Changes in fair value of investment properties	5	0
Precepts and levies	4,869	5,466
Non-domestic rates tariff, levy & deficit charges	15,836	13,046
Pensions interest cost and expected return on pensions assets	947	895
Total expenditure	<u>74,283</u>	<u>70,885</u>
Income		
Fees, charges and other service income	(7,268)	(7,300)
Interest and investment income	(3,392)	(4,273)
Changes in fair value of investment properties	0	(628)
Income from council tax, non-domestic rates, district rate income	(34,405)	(32,137)
Government grants and contributions	(29,981)	(30,533)
Loss/(Gain) on the disposal of assets	(576)	178
Total income	<u>(75,622)</u>	<u>(74,693)</u>
(Surplus) or Deficit on the Provision of Services	<u><u>(1,339)</u></u>	<u><u>(3,808)</u></u>

3 COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT – NOTES

3.04 OTHER OPERATING EXPENDITURE

	2021/22 £000	2022/23 £000
Parish council & Somerset Rivers Authority precepts	4,869	5,466
(Gains) or loss on the disposal of non-current assets	(576)	178
	<u>4,293</u>	<u>5,644</u>

3.05 FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2021/22 £000	2022/23 £000
Interest payable and similar charges	1,319	1,318
Net interest on Defined Benefit Liability	947	895
Interest receivable and similar income	(393)	(1,281)
Income and expenditure in relation to investment properties and changes in their fair value	(2,994)	(3,620)
	<u>(1,121)</u>	<u>(2,688)</u>

3 COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT – NOTES

3.06 TAXATION AND NON-SPECIFIC GRANT INCOME AND EXPENDITURE

	2021/22 £000	2022/23 £000
Council tax income	(12,095)	(12,934)
Non-domestic rates income	(22,310)	(19,202)
Non-domestic rates tariff, levy & deficit charges	15,836	13,046
Non-ringfenced government grants	(2,945)	(1,944)
Capital grants and contributions	(2,178)	(1,038)
	<u>(23,692)</u>	<u>(22,072)</u>

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 2022/23 was £392,132 (£392,126 in 2021/22)

In 2022/23 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 COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT – NOTES

3.08 MEMBERS ALLOWANCES

	2021/22 £000	2022/23 £000
Allowances	305	319
Expenses	(2)	7
	<u>303</u>	<u>326</u>

3 COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT – NOTES

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 £	Expenses Allowances £	Compensation for loss of Office £	Pension Contributions £	Benefits in Kind £	Total £
Chief Executive	2022/23	118,650	0	0	19,055	0	137,705
	2021/22	115,503	0	0	21,599	0	137,102
Deputy Chief Executive	2022/23	96,037	0	0	15,420	0	111,457
	2021/22	89,029	0	0	16,648	0	105,677
Assistant Chief Executive (Note 1)	2022/23	79,884	0	0	0	0	79,884
	2021/22	72,629	0	0	0	0	72,629
S151 Officer (Note 2)	2022/23	157,920	0	0	0	0	157,920
	2021/22	162,570	0	0	0	0	162,570
Monitoring Officer	2022/23	84,228	0	0	13,351	0	97,579
	2021/22	73,582	0	0	13,900	0	87,482

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: The S151 Officer started 7 July 2020 as a contractor through Penna and continued in post until 31 March 2023.

3 COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT – NOTES

In 2022/23 there were 16 additional employees receiving over £50k to those shown in the senior officer's emoluments note.

Remuneration Band	Number of Employees 2021/22	Number of Employees 2022/23
£50,000 to £54,999	8	6
£55,000 to £59,999	0	4
£60,000 to £64,999	2	1
£65,000 to £69,999	2	1
£70,000 to £74,999	1	3
£75,000 to £79,999	0	1
£80,000 to £84,999	0	0
	13	16

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.

This disclosure note does not include any exit packages that may occur as a result of the Somerset Local Government reorganisation that resulted in the vesting of a new Council, Somerset Council, on 1 April 2023. All staff employed by Mendip District Council were TUPE across to the new Council on 1 April 2023. Any subsequent exit packages and numbers will be reported in the Somerset Council accounts.

There were no termination benefits for current or prior year.

3 COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT – NOTES

3.10 EXTERNAL AUDIT COSTS

The other services provided for external audit costs relates to the HB Certification Audit.

	2021/22 £000	2022/23 £000
Fees payable with regard to external audit services carried out by the appointed auditor for the year*	75	56
Fees payable for the certification of grant claims and returns for the year	8	8
	<u>83</u>	<u>64</u>

The 2022/23 fee include the “base fee” only. The council has been charged scale fee variation in previous years which aren’t currently included in 2022/23 figures, any dispute in costs will be considered by Public Sector Audit Appointments Ltd (PSAA). 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 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.

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 COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT – NOTES

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 2022/23:

Credited to Taxation and Non Specific Grant Income	2021/22 £000	2022/23 £000
New Homes Bonus Scheme Grant	(1,006)	(995)
Other Non-ring fenced Government Grants		
Other Non-ring fenced Gov Grants - COVID-19 Service Support	(766)	(514)
Other Non-ring fenced Government Grants - COVID-19 New Burdens	(739)	(112)
Other Non-ring fenced Government Grants	(125)	0
Efficiency Support in Sparse Areas	(255)	(255)
Council Tax Family Annexe Grant	(54)	(66)
Capital Grants and Contributions	(2,178)	(1,038)
	(5,123)	(2,980)

3 COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT – NOTES

Credited to Services	2021/22	2022/23
	£000	£000
DWP – Benefits Subsidy	(17,911)	(16,733)
Glastonbury Town Fund	(290)	(6,995)
Disabled Facilities Grant	(1,010)	(1,010)
Housing (including Rough Sleepers)	(999)	(794)
Contributions from other Local Authorities	(486)	(710)
DWP – Benefit Admin Grant	(256)	(312)
Elections	(190)	(291)
COVID-19 Grants	(3,379)	(178)
Discretionary Council Tax Energy Rebates	0	(176)
Discretionary Housing Payment	(88)	(131)
DWP – Council Tax Subsidy	(104)	(104)
Other Grants	(145)	(119)
	<u>(24,858)</u>	<u>(27,553)</u>

3 COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT – NOTES

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 2022 £000	31 March 2023 £000
Not later than one year	18	3
Later than one year but not later than five years	3	0
Total	<u>21</u>	<u>3</u>

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.

3 COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT – NOTES

	31 March 2022 £000	31 March 2023 £000
Not later than one year	3,115	2,800
Later than one year but not later than five years	11,718	9,516
Later than five years	13,957	11,294
Total	<u>28,790</u>	<u>23,610</u>

4 MOVEMENT IN RESERVES STATEMENT – NOTES

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.

4 MOVEMENT IN RESERVES STATEMENT – NOTES

2022/23	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 (<i>transferred to (or from) the Pensions Reserve</i>)	1,409	0	0
Council tax and NDR (<i>transfers to (or from) the Collection Fund</i>)	(3,573)	0	0
Holiday Pay (<i>transferred to (or from) the Accumulated Absences Reserve</i>)	(118)	0	0
Reversal of entries included in the Surplus or Deficit on the Provisions of Services in relation to capital expenditure (<i>these items are charged to the Capital Adjustment Account</i>)	(5,963)	0	5,806
Total Adjustments to Revenue Resources	(8,245)	0	5,806
Adjustments between Revenue and Capital Resources			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	137	(137)	0
Statutory provision for the repayment of debt (<i>transfer from the Capital Adjustment Account</i>)	(344)	0	0
Capital expenditure financed from revenue balances (<i>transfer to the Capital Adjustment Account</i>)	(525)	0	0
Total Adjustments between Revenue and Capital Resources	(732)	(137)	0
Adjustments to Capital Resources			
Use of the Capital Receipts Reserve to finance capital expenditure	0	(447)	0
Cash payments in relation to Deferred Capital Receipts	0	59	0
Total Adjustments to Capital Resources	0	(388)	0
Total Adjustments	(8,977)	(525)	5,806

4 MOVEMENT IN RESERVES STATEMENT – NOTES

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 (<i>transferred to (or from) the Pensions Reserve</i>)	1,963	0	0
Council tax and NDR (<i>transfers to (or from) the Collection Fund</i>)	(4,861)	0	0
Holiday Pay (<i>transferred to (or from) the Accumulated Absences Reserve</i>)	(12)	0	0
Reversal of entries included in the Surplus or Deficit on the Provisions of Services in relation to capital expenditure (<i>these items are charged to the Capital Adjustment Account</i>)	(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 (<i>transfer from the Capital Adjustment Account</i>)	(333)	0	0
Capital expenditure financed from revenue balances (<i>transfer to the Capital Adjustment Account</i>)	(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

5 BALANCE SHEET – NOTES

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 de minimis 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 BALANCE SHEET – NOTES

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 2022/23 financial year, valuations were carried out as at 31 March 2023. 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.

5 BALANCE SHEET – NOTES

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.

5 BALANCE SHEET – NOTES

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	2,760	1,351	1,910	0	0	6,021
Valued as at:							
31 March 2023	11,787	0	0	0	142	0	11,929
31 March 2022	220	0	0	0	0	0	220
31 March 2021	10	0	0	0	0	0	10
31 March 2020	1,240	0	0	0	0	0	1,240
31 March 2019	1,314	0	0	0	0	0	1,314
Total cost or valuation	14,571	2,760	1,351	1,910	142	0	20,734

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.

5 BALANCE SHEET – NOTES

- 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 2022/23 (2021/22 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

5 BALANCE SHEET – NOTES

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 2023, the authority has not entered into any contracts for the construction or enhancement of property, plant and equipment in 2023/24.

Capital commitments at 31 March 2022 were £542k for Saxonvale Homes England and £102k for Northgate software.

Notes:

- No ongoing capital commitments for Saxonvale.
- Homes England works have finished.
- Adjoining Kingsway Precinct has been deferred (without funding).
- Onstreet Residential Chargepoint Scheme is ongoing, another £100k for 23/24 but not going to be owned, contract is for option to buy at the end of lease agreement (approx. 10 years).
- Rode & Beckington flood management and drainage works project, another £150k to pay to Montel but not capital expenditure.
- Multi-user Pathways no capital contract but cabinet approved plans to purchase or lease pockets of land.
- Future commitments – through New Somerset Council.

5 BALANCE SHEET – NOTES

5.01.5 Movement on Balances

2022/23	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 2022	19,126	2,549	1,351	782	231	0	24,039
Additions	126	211	0	1,128	0	0	1,465
Revaluation increases / (decreases) recognised in the Revaluation Reserve	(4,144)	0	0	0	0	0	(4,144)
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the Provision of Services	(488)	0	0	0	(12)	0	(500)
Derecognition - Disposals	(49)	0	0	0	0	0	(49)
Reclassifications	0	0	0	0	(77)	0	(77)
Other movements and adjustments	0	0	0	0	0	0	0
At 31 March 2023	14,571	2,760	1,351	1,910	142	0	20,734
Accumulated Depreciation & Impairment							
Accumulated, at 1 April 2022	(728)	(1,799)	0	(424)	(8)	0	(2,959)
Charge in year	(174)	(199)	0	(18)	6	0	(385)
Depreciation written out to the Revaluation Reserve	721	0	0	0	2	0	723
Derecognition - Disposals	29	0	0	0	0	0	29
At 31 March 2023	(152)	(1,998)	0	(442)	0	0	(2,592)
Net Book Value							
At 31 March 2023	14,419	762	1,351	1,468	142	0	18,142
At 31 March 2022	18,398	750	1,351	358	223	0	21,080

5 BALANCE SHEET – NOTES

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

5 BALANCE SHEET – NOTES

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 BALANCE SHEET – NOTES

5.02.1 Investment Properties (Gain & Loss)

	2021/22 £000	2022/23 £000
Rental income from investment property	2,999	2,992
Net gain/(loss)	<u>2,999</u>	<u>2,992</u>

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

5.02.2 Investment Properties (Fixed Assets)

	2021/22 £000	2022/23 £000
Balance at start of year	52,084	54,350
Additions	2,271	76
Net gains or (losses) from fair value adjustments	(5)	628
Balance at the end of the year	<u>54,350</u>	<u>55,054</u>

5.03 HERITAGE ASSETS

5 BALANCE SHEET – NOTES

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.

	2021/22 £000	2022/23 £000
Balance at start of year	132	132
Movements in Heritage Assets	0	0
Balance at the end of the year	<u>132</u>	<u>132</u>

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.

5 BALANCE SHEET – NOTES

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £222k charged to revenue in 2022/23 was charged to the relevant cost centre and then absorbed as an overhead across all the service headings in the Net Expenditure of Services.

	2021/22 £000	2022/23 £000
Balance at the start of year:		
Gross carrying amounts	400	610
Accumulated amortisation	(138)	(234)
Net carrying amount at the start of the year	<u>262</u>	<u>376</u>
Additions - purchases	253	0
Disposals	(43)	0
Amortisation for the period	(139)	(221)
Other changes - Amortisation on disposals	43	0
Net carrying amount at the end of year	<u><u>376</u></u>	<u><u>155</u></u>
Comprising:		
Gross carrying amounts	610	610
Accumulated amortisation	(234)	(455)
Total	<u><u>376</u></u>	<u><u>155</u></u>

5 BALANCE SHEET – NOTES

5.05 ASSETS HELD FOR SALE

The council owns land at Morlands, Glastonbury which it is actively looking to sale as of 31 March 2023.

	2021/22 £000	2022/23 £000
Balance at start of year	0	18
Assets newly classified as held for sale:		
Transfers to/from Property, Plant and Equipment	18	77
Revaluation Gains	0	6
Assets Sold	0	(18)
Balance at the end of the year	<u>18</u>	<u>83</u>

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.

5 BALANCE SHEET – NOTES

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

5 BALANCE SHEET – NOTES

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	Total	
	Investments / Cash & Cash Equivalents		Debtors		Investments / Cash & Cash Equivalents		Debtors		Total	Total	
	31 March 2022 £000	31 March 2023 £000	31 March 2022 £000	31 March 2023 £000	31 March 2022 £000	31 March 2023 £000	31 March 2022 £000	31 March 2023 £000	31 March 2022 £000	31 March 2023 £000	
	Amortised cost-other	0	0	9,646	9,040	33,780	26,764	2,193	2,539	45,619	38,343
	Total Financial Assets	<u>0</u>	<u>0</u>	<u>9,646</u>	<u>9,040</u>	<u>33,780</u>	<u>26,764</u>	<u>2,193</u>	<u>2,539</u>	<u>45,619</u>	<u>38,343</u>
Non-financial Assets	0	0	0	0	0	0	8,519	3,624	8,519	3,624	
Total	<u>0</u>	<u>0</u>	<u>9,646</u>	<u>9,040</u>	<u>33,780</u>	<u>26,764</u>	<u>10,712</u>	<u>6,163</u>	<u>54,138</u>	<u>41,967</u>	

5 BALANCE SHEET – NOTES

Financial Liabilities	Non-current				Current				Total	Total
	Borrowings		Creditors		Borrowings		Creditors			
	31	31	31	31	31	31	31	31	31	31
	March	March	March	March	March	March	March	March	March	March
2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	
£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	
Amortised costs	(62,839)	(62,822)	(203)	(219)	(51)	(51)	(1,527)	(643)	(64,620)	(63,735)
Total Financial Liabilities	(62,839)	(62,822)	(203)	(219)	(51)	(51)	(1,527)	(643)	(64,620)	(63,735)
Non-financial Liabilities	0	0	0	0	0	0	(22,317)	(9,146)	(22,317)	(9,146)
Total	(62,839)	(62,822)	(203)	(219)	(51)	(51)	(23,844)	(9,789)	(86,937)	(72,881)

5 BALANCE SHEET – NOTES

Income, Expense, Gains and Losses

Income Expense Gains & Losses	2021/22 Surplus or Deficit on Provision of Services £000	2022/23 Surplus or Deficit on Provision of Services £000
Interest expense:		
Financial liabilities measured at amortised cost	(1,319)	1,318
Total Expense	(1,319)	1,318
Interest revenue:		
Financial assets measured at amortised cost	185	(1,048)
Total Income	185	(1,048)
Net Profit / (Loss) for the year	(1,134)	270

5 BALANCE SHEET – NOTES

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.

5 BALANCE SHEET – NOTES

Financial Assets & Liabilities	31 March 2022		31 March 2023	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Financial Assets				
Amortised cost - Investments	33,780	33,780	26,764	26,764
Amortised cost - Short Term Debtors	2,193	2,193	2,539	2,539
Long Term Debtors	9,646	9,646	9,040	9,040
Total Financial Assets	45,619	45,619	38,343	38,343
Financial Liabilities				
Amortised cost - Borrowing	(51)	(51)	(51)	(51)
Amortised cost - Short Term Creditors	(1,527)	(1,527)	(643)	(643)
Long Term Borrowing	(62,839)	(57,737)	(62,822)	(38,336)
Long Term Creditors	(203)	(203)	(219)	(219)
Total Financial Liabilities	(64,620)	(59,518)	(63,375)	(39,249)

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 2023) arising from a commitment to pay interest below current market rate.

5 BALANCE SHEET – NOTES

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.

5 BALANCE SHEET – NOTES

	31 March 2022 £000	31 March 2023 £000
Short-term Debtors		
Central government bodies	4,643	433
Other local authorities	363	960
NHS Bodies	11	4
Council Tax	1,290	1,285
Non Domestic Rates	851	634
Housing Benefits	2,038	1,722
Housing Benefits Impairment allowance	(1,156)	(1,185)
Housing benefit net debt	882	537
Sundry	2,672	2,310
Net position at 31 March	10,712	6,163
Long-term Debtors		
Warranties	46	40
Other long-term loans	9,600	9,000
Net position at 31 March	9,646	9,040

5 BALANCE SHEET – NOTES

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 2022 £000	31 March 2023 £000
Bank current accounts	2,790	1,564
Short-term deposits	11,000	25,200
Net position at 31 March	13,790	26,764

Short term deposits have increased from previous year due to keeping cash available for unitary on 1 April 2023, you can see the contrasting reduction in short term investments within the balances sheet. For total cash and investment comparison see note 7.06.2 Credit Risk – Cash & Cash Equivalents & Investments

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.

5 BALANCE SHEET – NOTES

	31 March 2022 £000	31 March 2023 £000
PWLB	(34)	(34)
Other	(17)	(17)
Short Term Borrowing	<u>(51)</u>	<u>(51)</u>
PWLB	(62,793)	(62,793)
Other	(46)	(29)
Long Term Borrowing	<u>(62,839)</u>	<u>(62,822)</u>

5 BALANCE SHEET – NOTES

5.10 CREDITORS

Creditors are all amounts owed by the council as at 31 March 2023.

	31 March 2022 £000	31 March 2023 £000
Short-term Creditors		
Central Government Bodies	(18,654)	(4,121)
Other Local Authorities	(618)	(986)
Council Tax	(1,671)	(1,545)
Non Domestic Rates	(824)	(1,647)
Housing Benefits	(23)	0
Sundry	(2,054)	(1,490)
Balance at 31 March	<u>(23,844)</u>	<u>(9,789)</u>
Long-term Creditors		
Long Term Rent Deposits	(203)	(219)
Balance at 31 March	<u>(203)</u>	<u>(219)</u>

5 BALANCE SHEET – NOTES

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 2022 £000	Additional provisions made in 2022/23 £000	Amounts used in 2022/23 £000	Unused amounts reversed in 2021/22 £000	Balance at 31 March 2023 £000
NDR Appeals	(374)	(777)	374	0	(777)
5C Contract Review	(966)	0	966	0	0
Total	(1,340)	(777)	1,340	0	(777)

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 2023. These are likely to materialise throughout the year depending on the valuation office's time constraints.

5 BALANCE SHEET – NOTES

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 BALANCE SHEET – NOTES

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 2022/23.

Table on following page.

5 BALANCE SHEET – NOTES

	Balance at 1 April 2021 £000	Transfer In 2021/22 £000	Transfer Out 2021/22 £000	Transfer 2021/22 £000	Balance at 31 March 2022 £000	Transfer In 2022/23 £000	Transfer Out 2022/23 £000	Balance at 31 March 2023 £000
Budget Smoothing	5,479	0	(70)	(1,500)	3,909	0	0	3,909
Collection Fund Reserve	8,523	500	(4,576)	0	4,447	0	(2,881)	1,566
Maintenance for Investment Properties	886	0	0	0	886	0	(85)	801
Planning Policy	215	0	(53)	161	323	0	(10)	313
Saxonvale	498	0	(14)	0	484	0	(210)	274
LGR Transition	0	0	(112)	1,200	1,088	0	(840)	248
Flexible Homelessness Support Grant	249	0	0	(28)	221	0	(60)	161
Carry forward balances for 2022/23 Projects	394	0	(175)	(20)	199	0	(47)	152
Joint Working with Parish Councils	175	0	0	0	175	0	(36)	139
Homeless Reduction Act	387	0	0	(184)	203	0	(68)	135
District Elections	0	52	0	0	52	76	0	128
Cleaner/Greener Mendip	0	0	(127)	696	569	0	(442)	127
Special Expenses Rate (SER)	65	61	0	0	126	0	0	126
Covid-19	779	0	0	(591)	188	0	(69)	119
Economic Development Technical Analysis	320	0	(88)	(130)	102	0	0	102
Environmental Impact Funding	99	0	0	0	99	0	0	99
Mendip Rough Sleeper Initiative	128	56	0	0	184	0	(106)	78
Tenancy Hardship Fund	0	0	0	0	0	53	0	53
Climate change	92	0	(50)	0	42	10	0	52
Total of small reserves less than £50k each	1,919	158	(937)	396	1,536	0	(1,362)	174
Total Earmarked Reserves	20,208	827	(6,202)	0	14,833	139	(6,217)	8,755

5 BALANCE SHEET – NOTES

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 transition to 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.

Special Expenses Rate (SER)

An additional charge to the taxpayer for play/cemeteries/closed churchyards.

Planning Policy

This reserve is to fund local planning and planning policy work in future years.

Flexible Homelessness Support Grant

MCHLG funding to reduce homelessness.

Carry Forward Projects

Carry forward balances from 2021/22 for 2022/23 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.

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.

Economic Development Technical Analysis

Strategic review analysis for Cabinet

Environmental Impact Funding

Funding received from DCLG and earmarked for Environmental Impact Funding.

5 BALANCE SHEET - NOTES

District Elections

District elections are every four years, contribution to these costs.

Tenancy Hardship Fund

Homelessness Prevention top up grant to assist with rent arrears as a result of the pandemic.

Climate Change

Environmental impact funding to cover consultancy costs for climate change projects.

Homeless Reduction Act

New Burdens funding to deliver new legislation for the Homeless Reduction Act.

5 BALANCE SHEET - NOTES

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 2022 £000	31 March 2023 £000
Balance at 1 April	16,514	13,981
Upward revaluation of assets	188	325
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(2,545)	(3,741)
Surplus or (deficit) on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(2,357)	(3,416)
Difference between fair value depreciation and historical cost depreciation	(162)	(63)
Accumulated gains on assets sold or scrapped	(14)	(15)
Amount written off to the Capital Adjustment Account	(176)	(78)
Balance as at 31 March	<u>13,981</u>	<u>10,487</u>

5 BALANCE SHEET - NOTES

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.

5 BALANCE SHEET - NOTES

	31 March 2022 £000	31 March 2023 £000
Balance at 1 April	(208)	2,902
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	(496)	(385)
Revaluation gains/(losses) on Property, Plant and Equipment	469	(500)
Amortisation of intangible assets	(139)	(221)
Revenue expenditure funded from capital under statute	(1,253)	(2,463)
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	(127)	(38)
	(1,546)	(3,607)
Adjusting amounts written out of the Revaluation Reserve	176	78
Net written out amount of the cost of non-current assets consumed in the year	(1,370)	(3,529)
Capital financing applied in the year:		
Use of the Capital Receipts Reserve to finance new capital expenditure	761	447
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	2,519	2,214
Application of grants to capital financing from the Capital Grants Unapplied Account	847	922
Provision for the financing of capital investment charged against the General Fund balance	333	344
Capital expenditure charged against the General Fund balance	25	525
	4,485	4,452
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	(5)	628
Balance as at 31 March	2,902	4,453

5 BALANCE SHEET - NOTES

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 2022 £000	31 March 2023 £000
Balance at 1 April	5,940	5,883
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	0	0
Transfer (to)/from the Capital Receipts Reserve upon receipt of cash	(57)	(59)
Balance as at 31 March	<u>5,883</u>	<u>5,824</u>

5 BALANCE SHEET - NOTES

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 2022 £000	31 March 2023 £000
Balance at 1 April	(48,372)	(37,726)
Remeasurement of the net defined benefit liability or (asset)	12,608	25,615
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	(4,011)	(3,435)
Employer's pensions contributions and direct payments to pensioners payable in the year	2,049	2,026
Balance as at 31 March	<u>(37,726)</u>	<u>(13,520)</u>

The reduction in pension liability/reserve has significantly reduced, largely due to an increase in the discount rate from 2.6% to 4.8% as a result of the current economic climate and interest rates.

5 BALANCE SHEET - NOTES

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 2022 £000	Council Tax 31 March 2023 £000	Non-domestic Rates 31 March 2023 £000	Total 31 March 2023 £000
Balance at 1 April	(8,242)	579	(3,960)	(3,381)
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	4,861	(226)	3,799	3,573
Balance as at 31 March	<u>(3,381)</u>	<u>353</u>	<u>(161)</u>	<u>192</u>

5 BALANCE SHEET - NOTES

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 2022 £000	31 March 2023 £000
Balance at 1 April	(254)	(242)
Settlement or cancellation of accrual made at the end of the preceding year	254	242
Amounts accrued at the end of the current year	(242)	(124)
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	12	118
Balance as at 31 March	<u>(242)</u>	<u>(124)</u>

5 BALANCE SHEET - NOTES

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 2023, 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 2023, 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:

On 22 July 2021, the Secretary of State announced that the 4 Somerset District Council's and Somerset County Council would merge to become one new Unitary local authority, Somerset Council. This means that Mendip District Council will cease to exist after 31 March 2023.

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.

5 BALANCE SHEET - NOTES

Grants Receipts in Advance (Capital Grants)	31 March 2022 £000	31 March 2023 £000
S106 - Land at Southfield Farm, Frome 2013/1635	(515)	(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)
Sandys Hill Lane, Frome, (2019/1671/OTS)	0	(28)
S106 Greenacre Farm, Chilcompton	(23)	(23)
Shepton Grange	(19)	(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)
Glastonbury Town Centre	(892)	0
	(2,049)	(1,185)

5 BALANCE SHEET - NOTES

Grants Receipts in Advance (Revenue Grants)	31 March 2022 £000	31 March 2023 £000
COVID-19 Central Government Grants - Principal	(890)	(19)
Western Power - funding for EPC Certificates	(10)	(10)
S106 Sainsburys	(1)	0
	<u>(901)</u>	<u>(29)</u>

5 BALANCE SHEET - NOTES

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.

5 BALANCE SHEET - NOTES

	31 March 2022	31 March 2023
	£000	£000
Community Asset	209	209
	209	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.

5 BALANCE SHEET - NOTES

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 2022	31 March 2023
	£000	£000
Finance lease debtor / (creditor) (net present value of minimum lease payments);		
Current	59	62
Non-current	5,824	5,762
Unearned finance income	5,830	5,597
Gross investment in the lease	<u>11,713</u>	<u>11,421</u>

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

	Gross Investment in the Lease		Minimum Lease Payments	
	31 March 2022	31 March 2023	31 March 2022	31 March 2023
	£000	£000	£000	£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	10,254	9,962	10,254	9,962
	<u>11,713</u>	<u>11,421</u>	<u>11,713</u>	<u>11,421</u>

5 BALANCE SHEET - NOTES

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.

5 BALANCE SHEET - NOTES

	2021/22 £000	2022/23 £000
Opening Capital Financing Requirement	59,329	59,072
Capital Investment		
Property, Plant and Equipment	452	1,465
Investment Properties	2,271	76
Intangible Assets	253	0
Revenue Expenditure Funded from Capital under Statute	1,253	2,463
Sources of Finance		
Capital Receipts	(761)	(447)
Government Grants and Other Contributions	(3,367)	(3,135)
Sums set aside from revenue		
Direct Revenue Contributions	(25)	(525)
Minimum/Voluntary Revenue Provision	(333)	(344)
Closing Capital Financing Requirement	<u>59,072</u>	<u>58,625</u>
Increase/(decrease) in underlying need to borrow (unsupported by Government financial assistance)	(257)	(447)
Increase or (decrease) in Capital Financing Requirement	<u>(257)</u>	<u>(447)</u>

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

5 BALANCE SHEET - NOTES

- 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.

5 BALANCE SHEET - NOTES

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.

5 BALANCE SHEET - NOTES

	Local Government Pension Scheme	
	2021/22	2022/23
	£000	£000
Comprehensive Income and Expenditure Statement		
Cost of Services:		
Service cost comprising:		
- Current Service Cost*	3,064	2,540
Financing and Investing Income and Expenditure:		
- Net interest expense	947	895
Total Post-employment Benefits Charged to the Surplus or Deficit on the Provision of Services	4,011	3,435
Remeasurement of the net defined benefit liability comprising:		
- Return on plan assets (excluding the amount included in the net interest expense)	(2,839)	2,241
- Actuarial (gains) and losses arising on changes in demographic assumptions	(6,930)	0
- Actuarial (gains) and losses arising on changes in financial assumptions	(3,733)	(35,016)
- Actuarial experience (gains) and losses	772	7,163
- Other Actuarial (gains) and losses on assets	122	0
- Historical timing difference	0	(3)
Total Post-employment Benefit Charged to the Comprehensive Income and Expenditure Statement	(8,597)	(22,180)

*The Current Service Cost include admin expense.

5 BALANCE SHEET - NOTES

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	
	2021/22	2022/23	2021/22	2022/23
	£000	£000	£000	£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	(4,011)	(3,435)		
Actual amount charged against the General Fund Balance for pensions in the year:				
Employer's contributions to the scheme	1,895	1,871		
Retirement benefits payable to pensioners			153	156

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	
	2021/22	2022/23
	£000	£000
Present value of the defined benefit obligation	87,272	62,303
Fair value of plan assets	(49,539)	(48,783)
Net liability arising from defined benefit obligation	37,733	13,520

The reduction in pension liability/reserve has significantly reduced, largely due to an increase in the discount rate from 2.6% to 4.8% as a result of the current economic climate and interest rates.

5 BALANCE SHEET - NOTES

5.18.4 Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets

	Local Government Pension Scheme	
	2021/22 £000	2022/23 £000
Opening fair value of scheme assets	45,946	49,539
Interest income	919	1,291
Remeasurement gain/(loss):		
- The return on plan assets, excluding the amount in the net interest expense	2,839	(2,241)
- other actuarial gain/(loss)	(122)	0
- historical timing difference	0	11
- administration expense	(24)	(27)
Contributions from employer	2,048	2,033
Contributions from employees into the scheme	390	448
Benefits paid	(2,457)	(2,271)
Closing fair value of scheme assets	<u>49,539</u>	<u>48,783</u>

5 BALANCE SHEET - NOTES

5.18.5 Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

	Local Government Pension Scheme	
	2021/22 £000	2022/23 £000
Opening balance at 1 April	94,324	87,272
Current service cost	3,040	2,513
Interest cost	1,866	2,186
Contributions from scheme participants	390	448
Remeasurement (gains) and losses:		
- Actuarial (gains)/losses arising from changes in demographic assumptions	(6,930)	0
- Actuarial (gains)/losses arising from changes in financial assumptions	(3,733)	(35,016)
- Actuarial experience (gains)/losses calculated on defined benefit obligation	772	7,163
- historical timing difference	0	8
Benefits paid	(2,305)	(2,122)
Unfunded pension payments	(152)	(149)
Closing balance at 31 March	<u>87,272</u>	<u>62,303</u>

5 BALANCE SHEET - NOTES

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%	2021/22 £000	2021/22 %	2022/23 £000	2022/23 %
Equity investments	35,891	72	36,386	75
Cash and cash equivalents	2,425	5	1,670	3
Gilts (Public Sector)	2,494	5	1,744	4
Corporate bonds	4,783	10	5,069	10
UK Property	3,970	8	3,914	8
Total	49,563	100	48,783	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 2023 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.

5 BALANCE SHEET - NOTES

The following table provides a more detailed breakdown of the council's assets as at 31 March 2023:

Employer asset share - bid value	2022/23 £000	%
Equities:		
UK Equities:		
- Unquoted	5,366	11.0%
Overseas Equities:		
- Unquoted	29,270	60.0%
Gilts:		
- Fixed interest (UK)	976	2.0%
Index linked:		
- UK	976	2.0%
Bonds:		
- UK	3,415	7.0%
- Overseas	1,463	3.0%
Property	3,903	8.0%
Private Equity	1,951	4.0%
Cash	1,463	3.0%
Total Portfolio	48,783	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 BALANCE SHEET - NOTES

5.18.7 Basis for Estimating Assets and Liabilities

To assess the value of the Employer's liabilities at 31 March 2023, we have rolled forward the value of the Employer's liabilities calculated for the latest funding valuation as at 31 March 2022, 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 2023 without completing a full valuation. However, we are satisfied the approach of rolling forward the previous valuation data to 31 March 2023 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		
	2021/22	2022/23
Mortality assumptions:		
Longevity at 65 for current pensioners:		
- men	21.3	21.4
- women	23.2	23.2
Longevity at 65 for future pensioners:		
- men	22.6	22.7
- women	24.6	24.7
CPI increases	3.2%	3.0%
Rate of increase in salaries	4.2%	4.0%
Rate of increase in pensions	3.2%	3.0%
Rate of discounting scheme liabilities	2.6%	4.8%

5 BALANCE SHEET - NOTES

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 £1.219million in expected contributions to the scheme in 2023/24. The weighted average duration of the defined benefit obligation for scheme members is 16 years, 2022/23 (20 years 2021/22).

	Increase in Assumption £000	Decrease in Assumption £000
Assumption adjustment:		
Longevity - increase/decrease by 1 year	2,711	(2,584)
Salaries - increase/decrease by 0.1%	70	(70)
Pensions - increase/decrease by 0.1%	904	(883)
Discount rate (scheme liabilities) - increase/decrease by 0.1%	(935)	958

6 CASH FLOW - NOTES

6.01 OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

	2021/22 £000	2022/23 £000
Interest received	365	1,240
Interest paid	(1,326)	(1,320)

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

	2021/22 £000	2022/23 £000
Depreciation	635	607
Impairment	(469)	498
Changes in fair value of investment properties	5	(628)
Net book value of disposed assets	127	38
Debtor accruals	1,411	554
Creditor accruals	(4,047)	(7,025)
Grants received in advance - revenue	(1,447)	(872)
Provisions	429	(563)
Pension	1,963	1,402
	<u>(1,393)</u>	<u>(5,989)</u>

6 CASH FLOW - NOTES

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

	2021/22 £000	2022/23 £000
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(705)	137
Any other items for which the cash effects are investing or financing cash flows	(3,562)	(8,942)
	<u>(4,267)</u>	<u>(8,805)</u>

6.02 INVESTING ACTIVITIES

	2021/22 £000	2022/23 £000
Purchase of property, plant and equipment, investment property and intangible assets	(3,474)	(1,808)
Purchase of short-term investments	(7,073)	0
Other payments for investing activities	(6)	(5)
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	101	237
Proceeds from short-term investments	0	19,990
Other receipts from investing activities	4,061	8,140
	<u>(6,391)</u>	<u>26,554</u>

6 CASH FLOW - NOTES

6.03 FINANCING ACTIVITIES

	2021/22 £000	2022/23 £000
Other receipts from financing activities - Preceptor cash	8,885	6,121
Other receipts from financing activities - Grants central government cash	5,109	0
Repayments of short term borrowing	(28)	(17)
Other payments for financing activities - Preceptor cash	0	(655)
Other payments for financing activities - Grants central government cash	0	(8,043)
	<u>13,966</u>	<u>(2,594)</u>

6.04 RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

2022/23	1 April 2022	Financing Cash Flows	Other Non-Cash Changes	31 March 2023
	£000	£000	£000	£000
Long term borrowing	62,839	0	(17)	62,822
Short-term borrowing	51	(17)	17	51
Other (payments)/receipts for financing activities	5,123	(2,577)	0	2,546
	<u>68,013</u>	<u>(2,594)</u>	<u>0</u>	<u>65,419</u>

6 CASH FLOW - NOTES

2021/22	1 April 2021	Financing Cash Flows	Other Non-Cash Changes	31 March 2022
	£000	£000	£000	£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
	<u>54,047</u>	<u>13,966</u>	<u>0</u>	<u>68,013</u>

7 ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

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 2022/23 (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.

- Definition of Accounting Estimates (Amendments to IAS 8) issued in February 2021.
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) issued in February 2021.
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) issued in May 2021.
- Updating a Reference to the Conceptual Framework (Amendments to IFRS 3) issued in May 2020.

It is anticipated the above amendments will not have a material impact on the information provided in the statement of accounts.

7 ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

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 subsequent years, including 2022/23. It now appears increasingly likely they will also not be implemented in the immediate future, including 2023/24. However, this does remain a risk and reserves are being held accordingly to protect the medium term financial position of the council.

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 since that date and this continues to be the case. At the Shape Housing board meeting on 30 November 2022, a decision was taken to strike off the Shape Housing company. As a result the council made a decision to write off debts related to the company of £201k, which was funded from a reserve set aside for this circumstance.

7 ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

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	<p>Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it 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.</p>	<p>If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.</p> <p>It is estimated that the annual depreciation charge for buildings would increase by £39,007.95 for every year that useful lives had to be reduced.</p> <p>If the actual valuation differs from the assumptions made then these will be adjusted when the asset is revalued.</p>
Fair Value Measurement of Investment Properties	<p>Investment properties are revalued every year and, therefore, takes into account the current market conditions. The council's expert valuer uses valuation techniques by developing estimates and assumptions consistent with how the market participants would price the property. Valuers base assumptions on observable data where possible and the best available information where this is not available.</p>	<p>A 1% movement in the valuation of investment properties would equate to a movement of £554,450</p>

7 ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

Item	Uncertainties	Effect if actual results differ from assumptions
Pension Liability	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. 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.</p>	<p>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 £4.351 million. During 2022/23 the discount rate increased from 2.6% to 4.8% resulting a in a significant gain to the pension fund as can be seen in Note 5.18</p> <p>However, the assumptions interact in complex ways. During 2022/23, the council's actuaries advised that the net pension liability had increased by £7,163,000 as a result of estimates being corrected as a result of experience and decreased by £32,775,000 attributable to the updating of assumptions.</p>
Provisions	<p>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.</p>	<p>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.</p>
Arrears	<p>At 31 March 2023, the council had a sundry (trade) debtor balance of £1,265k. A review of significant balances suggested that an impairment of doubtful debts of 8% (£105k) was appropriate.</p>	<p>If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £105k to set aside as an allowance.</p>

7 ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

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 2022/23.

As of the date of the council's Chief Finance Officer signing the accounts, there was 17 returns from members outstanding and two from senior officers. 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 2022/23.

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.

7 ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

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:

	2021/22	2022/23
	£000	£000
Amounts due to UK Government	(18,654)	(4,121)
Amounts due to Somerset County Council	(2,598)	(1,752)
Amounts due from UK Government	4,643	433
Amounts due from Somerset County Council	964	908

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 one contingent liability which is compensation for damages caused by an insurance related event. This is a historic event with an estimated value of approx. £20k but with the probability less than 50%.

7 ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

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.

7 ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

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 that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the council's deposits, but there was no evidence at 31 March 2023 that this was likely to crystallise.

The table below summarises the nominal value of the council's investment portfolio at 31 March 2023 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.

7 ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

Credit Risk – Cash & Cash Equivalents & Investments

	31 March 2022 £000	31 March 2023 £000
AA rated counterparties	8,000	15,200
AA- rated counterparties	0	5,000
A+ rated counterparties	25,780	5,000
A rated counterparties	0	1,564
	33,780	26,764

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 2022 £000	31 March 2023 £000
Less than three months	165	787
Three to six months	75	10
Six months to one year	48	20
More than one year	353	43
	641	860

7 ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

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 (£62.793 million 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 2022 £000	31 March 2023 £000
Less than one year	51	51
Between one and two years	17	12
Between two and five years	29	18
Between five and ten years	5,000	5,000
Between ten and twenty years	16,900	16,900
More than twenty years	40,893	40,893
	<u>62,890</u>	<u>62,874</u>

7 ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

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 2023.

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 its 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 2023 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 was raised from 0.75% at the start of 2022/23 to 4.25% at year end. 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 ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

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 2022/23 financial year and its position at the year-end on 31 March 2023. 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 2022/23 ('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, please refer to Note 7.08.

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.

7 ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

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.

7 ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

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 ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

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 that the COVID-19 Pandemic had on local authorities including Mendip, particularly reductions in income and the need to incur additional expenditure in response to the impact of the virus, 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 2022/23 (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 that the council will continue to operate in the foreseeable future and that it is able to do so within the current and anticipated resources available. By this, it is meant that the council will realise its assets and settle its obligations in the normal course of business.

The Code guidance for 2022/23 remains unchanged from previous years and contains the following provisions in respect of the concept of a going concern:

7 ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

The requirement to use the going concern basis of accounting means that 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, COVID-19 and the Cost of Living crisis, the report author has undertaken such an assessment for the purposes of the 2022/23 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 impact of inflation and Cost of Living crisis 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 2022/23, the intention was to achieve a break-even position. A prudent set of assumptions were used, as there were some economic uncertainties at that point. This included continuing the prudent estimates for Business Rates Pooling arrangements. Previous reductions in anticipated income from Commercial Investments were however partly reversed as the investments had continued to perform well throughout the pandemic.

The estimated outturn position as at the end of Quarter 3, showed a projected surplus of £67k, and the projected business rates pooling performance has been received subsequently, with potential income of around £300k in excess of the budget. The key in-year pressure has been the impact of inflation, which is currently in excess of 10%, compared to the government's 2.5% target. This has pushed up many costs but also added an extra £300k to the cost of the 2022/23 pay award. This was funded from the 2021/22 surplus of £720k. Decisions were also taken by the council to use a further £80k to increase the discretionary Hardship Funds operated for Council Tax and Housing Benefit.

7 ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

The level of general balances will therefore reduce by £380k to £1,985k, prior to any adjustment for the 2022/23 outturn. This is still significantly above the minimum level of £1.5m set by the council.

The cost of living and energy crisis have seen a continuation of Government emergency funding arrangements such as business rates discounts and various financial support schemes for households being administered by local government. This has required additional work being undertaken by our external provider of the Revenues and Benefits service. Additional New Burdens funding was provided by the Government to meet these extra costs.

Earmarked reserves have reduced during the past year. The largest use was aside to cover the council's share of LGR costs, both on central transition costs managed by Somerset County Council and Mendip's additional staffing costs. A complicating factor was the use of Section 31 grants received as compensation for additional business rate reliefs granted nationally during the pandemic. These have fed through the accounts a year after the grants were received. Additionally, around £700k was spent on Corporate Priorities during the year, and £250k applied to the wind-up of Shape Housing Limited, prior to LGR transition.

	As at 31.03.2022 £000	As at 31.03.2023 £000
General Balances	2,415	3,323
MTFP Reserve	3,979	3,979
LGR Reserve	1,088	248
COVID-19 Reserve	188	119
Collection Fund (COVID-19 s31)*	4,447	1,566
Earmarked Reserves	5,130	2,843
Total Earmarked	14,832	8,755
TOTAL	17,247	12,078

* S31 grants for Business rates reliefs granted in 2021/22 which credited the collection fund in 2022/23. Similar arrangements are in place for 2023/24.

Cash position

The council had a cash balance of £26.7m at the end of 2022/23, an increase from the £13.8m at the end of the previous year. Most of this reduction relates to COVID-19 business rate reliefs applied in 2022/23 and COVID-19 grant balances which were returned to government where unspent.

7 ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

An updated cash-flow projection to the end of 2023/24 has been prepared for the new Somerset Council which demonstrates that the new council will have no cash-flow difficulties in the coming financial year.

The cash and reserves balances will transfer to the new Somerset Council on 1 April 2023 and these will form part of the opening balance sheet.

Capital / Assets

Capital expenditure during the year was limited to an approved budget of £6.5m, however £4.5m of this related to the Glastonbury Town Deal which is entirely grant funded. The remainder will be mainly funded from external grants and no further external borrowing will be undertaken. The capital financing requirement will therefore reduce, as further MRP is set aside.

Section 3 – LGR / New Somerset Council

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 transfers 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 historically provided by both the county and district councils have 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 4 - 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 2022/23. This will include a detailed review of the effectiveness of the council's governance arrangements and a draft was considered by Audit Committee on 22 March 2023.

Section 5 - 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.

7 ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

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 that 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, Thurrock, Slough, Croydon and Luton have received support from the Government).

Section 6 - The New Council's Projected Financial Position

As referred to above, the future financial position is incorporated into the consolidated financial strategy and plans for the new unitary Somerset Council from 1 April 2023.

The 2023/24 budget report for the new council was approved by Somerset County Council on 22 February 2023 with the council setting a balanced budget that was supported by the S151 Officer's professional opinion regarding the robustness of the budget and adequacy of reserves. It includes the ongoing implications of approved budgets and service levels and the revenue costs of the council's capital programme, as well as the management of debt and investments.

The new council's Medium Term Financial Plan (MTFP) will be updated annually, and currently reflects a forecast budget gap of £41m in 2024/25 based on current information.

External factors and the significant challenge of creating the new council for Somerset means financial risks remain higher than normal. The new council's political and senior officer leadership will ensure budgets are carefully monitored in year and take responsive action that may be deemed necessary. It will also develop robust plans to ensure a balanced budget is delivered for 2024/25 and in the medium term.

Section 7 – Conclusion

No material uncertainties have been identified in preparing this assessment.

Other than the re-organisation detailed in sections 3 and 7 above, the management are not currently aware of any significant information beyond the period incorporated in this going concern assessment that provides contrary information that the auditor needs to be aware of.

These accounts have been prepared on a going concern basis. Mendip Council will pass significant cash balances, general balances and earmarked reserves to the new Somerset Council which will aid the Going Concern considerations for the new council.

7 ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

Section 8 - Section 151 Officer Opinion

It is my professional opinion that the council remains a “going concern” and that it is appropriate to prepare the 2022/23 accounts on this basis.

The council set a balanced budget for 2022/23. I anticipate the council will remain within budget for year and will report an increase in general reserves, having carefully managed financial performance and adapted to financial risks during the year. General Reserves are currently projected to remain comfortably above the minimum adequate level and earmarked reserves contain further contingencies for the more-significant financial risks.

I am satisfied that the dissolution of the district council on 1 April 2023 does not alter the appropriate use of the going concern presumption, and that the new council has reflected the continuation of services within its 2023/24 budget.

Somerset Council set a balanced budget for 2023/24 on 22 February 2023 that was supported by its S151 Officer’s professional opinion regarding the robustness of the budget and adequacy of reserves. The S151 Officers from all four Somerset districts and the County Council have worked together collaboratively through the LGR Programme and its Finance Workstream to prepare the budget and develop the financial strategies for the new council, reflecting the services and budget of all five current councils and the priorities of the prospective elected Members of Somerset Council.

Other useful documents

Draft Annual Governance Statement – Audit Committee 22/03/2023

8 COLLECTION FUND

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 (NDR) 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 2022/23 was **£5.03** (2021/22 was also £5.03).

8 COLLECTION FUND

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%.

	2021/22			2022/23		
	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)	(83,739)	N/A	(83,739)	(87,303)	N/A	(87,303)
Transfer from General Fund:				0		
- hardship relief	(84)	0	(84)	(95)	0	(95)
Non Domestic Rates Receivable (net of discretionary and mandatory reliefs)	N/A	(28,873)	(28,873)	N/A	(32,908)	(32,908)
	<u>(83,823)</u>	<u>(28,873)</u>	<u>(112,696)</u>	<u>(87,398)</u>	<u>(32,908)</u>	<u>(120,306)</u>

8 COLLECTION FUND

	2021/22			2022/23		
	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 debited to the Collection Fund						
Precepts/demands for council tax and shares of non-domestic rating income						
- Somerset County Council	55,952	3,290	59,242	57,912	2,861	60,773
- Avon and Somerset Police & Crime Commissioner	9,971	0	9,971	10,436	0	10,436
- Devon and Somerset Fire and Rescue Service	3,720	366	4,086	3,813	318	4,131
- Mendip District Council	11,964	14,623	26,587	12,805	12,717	25,522
Payment with respect to central government share of NDR (net of allowable deductions)	N/A	18,278	18,278	N/A	15,896	15,896
Transitional protection payments non-domestic rates	N/A	(192)	(192)	N/A	(284)	(284)
Renewable Energy Disregard Impairment:	0	105	105	0	457	457
- change in the allowance for doubtful debt	811	407	1,218	959	496	1,455
- change in allowance for loss of income on appeals	N/A	(576)	(576)	N/A	1,008	1,008
Charge to the General Fund for allowable collection costs - non-domestic rates	N/A	170	170	N/A	170	170
(Surplus) / Deficit for Year	(1,405)	7,598	6,193	(1,473)	731	(742)

8 COLLECTION FUND

	2021/22			2022/23		
	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	(273)	(1,725)	(1,998)	2,108	(841)	1,267
- Avon and Somerset Police & Crime Commissioner	(48)	0	(48)	376	0	376
- Devon and Somerset Fire and Rescue Service	(19)	(190)	(209)	140	(93)	47
- Mendip District Council	(59)	(7,615)	(7,674)	451	(3,740)	(3,289)
- Central Government	N/A	(9,501)	(9,501)	N/A	(4,675)	(4,675)
Movement on the fund	<u>(1,804)</u>	<u>(11,433)</u>	<u>(13,237)</u>	<u>1,602</u>	<u>(8,618)</u>	<u>(7,016)</u>
Opening fund balance	(2,079)	21,302	19,223	(3,883)	9,869	5,986
Closing fund balance	(3,883)	9,869	5,986	(2,281)	1,251	(1,030)

8 COLLECTION FUND

8.01 COUNCIL TAX

The average council tax at Band D set by the council was as follows:

	2021/22 £000	2022/23 £000
Somerset County Council	1,353.53	1,394.00
Avon and Somerset Police & Crime Commissioner	241.20	251.20
Devon and Somerset Fire and Rescue Service	90.00	91.79
Mendip District Council	166.61	171.61
Somerset Rivers Authority	1.84	1.84
Town and Parish council's (average)	115.94	129.74
Special Expenses (average)	5.03	5.03
	<u>1,974.15</u>	<u>2,045.21</u>

8 COLLECTION FUND

The amount of income generated in 2022/23 by each council tax band was as follows:

Band	Band Multiplier	Chargeable Dwellings	Band D Equivalent	Council Tax Income per Band
A	6/9	4,384	2,922.80	6,073,627
B	7/9	10,361	8,058.80	16,746,320
C	8/9	10,946	9,729.70	20,218,478
D	9/9	7,140	7,140.40	14,837,870
E	11/9	5,592	6,834.90	14,203,036
F	13/9	3,200	4,622.20	9,605,008
G	15/9	1,841	3,068.90	6,377,225
H	18/9	114	227.50	472,749
Disabled Band A		7	4.10	
Less 2% losses on collection			(1,065.23)	
Tax Base (equivalent Band D)			41,544.07	

The 2022/23 tax base approved by council was **£41,544.07** (41,337.76 in 2021/22). 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.

	2021/22	2022/23
Non-domestic rateable value as at 31 March	96,987,219	97,930,274
Non-domestic rate multiplier <£51,000	49.9p	49.9p
Non-domestic rate multiplier >£51,000	51.2p	51.2p

9 CONTROLLED COMPANIES/SUBSIDIARY UNDERTAKINGS

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.

At the Shape Housing board meeting on 30 November 2022, a decision was taken to strike off the Shape Housing company. As a result the council made a decision to write off debts related to the company of £201k, which was funded from a reserve set aside for this circumstance.

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 of 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.

10 GLOSSARY

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.

10 GLOSSARY

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.

10 GLOSSARY

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.

10 GLOSSARY

Lease

A lease is an 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.

10 GLOSSARY

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.

10 GLOSSARY

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