South Somerset District Council

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Audit Committee

Thursday 25th July 2019

10.00 am

Main Committee Room, Council Offices,Brympton Way, Yeovil, BA20 2HT

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

The following members are requested to attend the meeting:

Chairman: Martin Carnell
Vice-chairman: Mike Hewitson

Mike Best
Dave Bulmer
Malcolm Cavill
Louise Clarke
Brian Hamilton
Paul Maxwell
Robin Pailthorpe
William Wallace

If you would like any further information on the items to be discussed, please contact the Case Services Officer (Support Services) on 01935 462038 or democracy@southsomerset.gov.uk

This Agenda was issued on Wednesday 17 July 2019.

Alex Parmley, *Chief Executive Officer*

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

Information for the Public

The purpose of the Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance, to the extent that it affects the authority's exposure to risk and weakens the control environment and to oversee the financial reporting process.

The Audit Committee should review the Code of Corporate Governance seeking assurance where appropriate from the Executive or referring matters to management on the scrutiny function.

The terms of reference of the Audit Committee are:

Internal Audit Activity

1. To approve the Internal Audit Charter and annual Internal Audit Plan;
2. To receive quarterly summaries of Internal Audit reports and seek assurance from management that action has been taken;
3. To receive an annual summary report and opinion, and consider the level of assurance it provides on the council's governance arrangements;
4. To monitor the action plans for Internal Audit reports assessed as "partial" or "no assurance;"
5. To consider specific internal audit reports as requested by the Head of Internal Audit, and monitor the implementation of agreed management actions;
6. To receive an annual report to review the effectiveness of internal audit to ensure compliance with statutory requirements and the level of assurance it provides on the council's governance arrangements;

External Audit Activity

7. To consider and note the annual external Audit Plan and Fees;
8. To consider the reports of external audit including the Annual Audit Letter and seek assurance from management that action has been taken;

Regulatory Framework

9. To consider the effectiveness of SSDC's risk management arrangements, the control environment and associated anti-fraud and corruption arrangements and seek assurance from management that action is being taken;
10. To review the Annual Governance Statement (AGS) and monitor associated action plans;
11. To review the Local Code of Corporate Governance and ensure it reflects best governance practice. This will include regular reviews of part of the Council's Constitution and an overview of risk management;
12. To receive reports from management on the promotion of good corporate governance;

Financial Management and Accounts

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

14. To provide a scrutiny role in Treasury Management matters including regular monitoring of treasury activity and practices. The committee will also review and recommend the Annual Treasury Management Strategy Statement and Investment Strategy, MRP Strategy, and Prudential Indicators to Council;

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

Overall Governance

16. The Audit Committee can request of the Section 151 Officer, the Monitoring Officer, or the Chief Executive (Head of Paid Services) a report (including an independent review) on any matter covered within these Terms of Reference;

17. The Audit Committee will request action through District Executive if any issue remains unresolved;

18. The Audit Committee will report to each full Council a summary of its activities.

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

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

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

Members questions on reports prior to the Meeting

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

Recording and photography at council meetings

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

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

Audit Committee

Thursday 25 July 2019

Agenda

Preliminary Items

1. Minutes

To approve as a correct record the minutes of the previous meeting held on Thursday 27th June 2019.

2. Apologies for absence

3. Declarations of Interest

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

4. Public question time

5. Date of next meeting

Councillors are requested to note that the next Audit Committee meeting is scheduled to be held at 10.00am on Thursday 24th October in the Main Committee Room, Brympton Way, Yeovil.

Items for Discussion

6. 2018/19 Annual Governance Statement (Pages 5 - 17)

7. Audit Findings Report 2018/19 (Pages 18 - 46)

8. Statement of Accounts 2018/19 (Pages 47 - 52)

9. Audit Committee Forward Plan (Pages 53 - 54)

2018/19 Annual Governance Statement

Executive Portfolio Holder:	*Val Keitch – Leader of the Council*
Lead Officer:	*Paul Fitzgerald – S151 Officer*
Contact Details:	*Paul.Fitzgerald@southsomerset.gov.uk or 01935 462226*

Purpose of the Report

This report has been prepared for the Audit Committee to approve the Annual Governance Statement (AGS) for 2018/19.

Recommendation(s)

Audit Committee approves the 2018/19 Annual Governance Statement.

Background

As a local authority SSDC is required to demonstrate compliance with the underlying principles of good governance and that a framework exists to demonstrate this. One of the Council's requirements in demonstrating this is to produce an Annual Governance Statement (AGS).

The Chartered Institute of Public Finance and Accountancy (CIPFA) provide guidance on the processes for the establishment, operation and review of the system of internal control. Their guidance also provides help on the format and content of the AGS.

Annual Governance Statement

The Annual Governance Statement is required by Regulation 6(1)(b) of the Accounts and Audit (England) Regulations 2015. The regulations require authorities to carry out in each financial year a review of the effectiveness of their system of internal control and may include an Annual Governance Statement in the annual accounts. This is to provide assurance that SSDC has a sound internal control framework in place to manage the risks that might prevent achievement of its statutory obligations and organisational objectives.

The statement also reflects the compliance with the "Statement on the Role of the Chief Finance Officer in Local Government (2016) and the CIPFA statement of the Role of the Head of Internal Audit (2010)." This is evidenced within the Annual Governance Statement where the authority meets with best practice.

The Annual Governance Statement is required to be signed by the Leader of the Council and the Chief Executive.

The Statement also reflects Public Sector Internal Audit Standards (PSIAS). The Standards also require a Quality Assurance and Improvement Programme which has been included within the Review of Internal Audit and will be monitored by the Audit Committee.

In producing the Annual Governance Statement, reports from SSDC's external auditors, South West Audit Partnership, a review of the effectiveness of internal audit, the annual review of the Assistant Director of SWAP, and a review of all Statements of Operational Service Internal Controls have been undertaken. The review has been completed by the Senior Leadership Team (SLT) comprising the Chief Executive, Directors, Monitoring Officer and S151 Officer.

There are no significant issues to be addressed. Significant issues are issues that would be highlighted through SLT in carrying out its Corporate Governance function, the S151 Officer, by Internal Audit as a risk score of 5, or highlighted through the work of External Audit. The action plan included within the Annual Governance Statement will further strengthen the control framework.

Financial Implications

There are no financial implications associated with these recommendations.

Background Papers: *None*

South Somerset District Council

ANNUAL GOVERNANCE STATEMENT 2018/19

Annual Governance Statement 2018/19

Introduction

This is South Somerset District Council's Annual Governance Statement (AGS) for 2018/19. The Annual Governance Statement is required by Regulation 6(1)(b) of the Accounts and Audit (England) Regulations 2015.

The Council has responsibility for conducting, at least annually, a review of its governance framework including the effectiveness of the system of internal control. A review of the effectiveness is informed by senior managers within the Council who have responsibility for the development and maintenance of the governance environment, and also by the work of the internal auditors and external auditors. The Senior Leadership Team, comprising the Chief Executive, Directors, Section 151 Officer and Monitoring Officer, reviewed the draft 2018/19 Statement in April 2019. The review was also supported by the Council's Chief Internal Auditor.

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

This is a significant period of change for the Council. We have been progressing with an organisation-wide transformation programme, which started in 2017, and involves the implementation of a new 'operating model' – changing the way or people and service activities are organised; and modernising and streamlining our business processes. At the heart of the programme is our ambition to deliver improved services for our customers and remain financially resilient as an organisation. It has been overseen by robust programme and project management arrangements, which are summarised within this document. Delivering savings through transformation is one part of the Council's financial strategy, which also includes financial targets around income generation and commercial investment. These are key to our planned approach to meeting the financial challenges and ensuring our services are sustainable and affordable for the foreseeable future.

Cllr Val Keitch
Leader of Council

Alex Parmley
Chief Executive

What is Corporate Governance?

Corporate governance refers to the processes by which organisations are directed, controlled, led and held to account. It is also about culture and values - the way that councillors and employees think and act. The Council's corporate governance arrangements aim to ensure that it does the right things, in the right way, for the right people in a manner that is timely, inclusive, open, honest and accountable.

The Council's Governance responsibilities

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

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

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

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

The Council has adopted a Local Code of Corporate Governance. The Code that existed during 2018/19 has remained substantially unchanged since its approval in 2013. Officers have therefore taken the opportunity to review the Local Code in April 2019, and have updated it in line with the above principles that reflect the most recent guidance. The updated Code will be presented to the Audit Committee in July for approval alongside the Annual Governance Statement for 2018/19.

The Governance Framework

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

As the Council improves the way it provides services, it is important that the governance arrangements are robust and flexible enough to manage this.

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

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

South Somerset District Council – Governance Assurance Framework

Governance Framework – Key Documents/Functions

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

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

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

Council and Service Policies, Operational Plans and Risk Registers

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

Review the effectiveness of the system of internal audit

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

Ongoing assurance on adequacy and effectives of control over key risks

The Corporate Strategy and Plan

In April 2016, the Council approved its “Tackling the Challenges” Council Plan 2016 to 2021, and has subsequently produced an Annual Action Plan to set out what the Council will do to deliver and progress the agreed priorities for the year ahead.

Members and Officers worked together to produce the Annual Action Plan for 2018/19, which was approved in February 2018. The Plan provides a clear focus for the Council regarding what it will deliver during a period of major change. It draws together our strategies and priority projects for the year, supported by a revised set of key performance indicators.

The focus for the year 2018/19 is the continued implementation of our transformation programme. Delivering this major change has absorbed a lot of the organisation’s capacity and energy, requiring a clear focus. Ensuring that we can meet our aims is a complex challenge and like all councils, we continue to face substantial financial challenges as we work towards meeting the £6 million annual savings target by 2022/23, as defined in the council’s Financial Strategy. The Council’s budget for 2018/19 and Medium Term Financial Plan (MTFP) demonstrate good initial progress towards this target.

The Council agreed eight Priority Projects for 2018/19 within the Action Plan, as follows:

1) To implement the Transformation Programme and Commercial Strategy.
2) To complete the “Yeovil Refresh” for Yeovil Town Centre and progress implementation.
3) To develop proposals for the regeneration of Chard and progress implementation.
4) To create a town centre action plan for Wincanton and progress implementation.
5) To deliver Phase 2 of the Yeovil Innovation Centre.
6) To facilitate appropriate local development ensuring local housing and infrastructure needs are met.
7) To support our small and medium sized businesses across the District, including internet access, to meet their needs.
8) To meet the new homelessness duties arising from the Homelessness Reduction Act 2017.

The Corporate Plan and Annual Plans are not intended to capture everything that the Council does nor do they include the detail of all our work and projects. That is the role of the Operational and Individual Plans which will flow from the Council Plan.

Decision Making and Responsibilities

Our Constitution sets out how the Council operates, how decisions are made and the procedures for ensuring that the Council is efficient, transparent and accountable to local people. It contains the basic rules governing the Council’s business, and a section on responsibility for functions, which includes a list of functions which may be exercised by officers. It also contains the rules, protocols and codes of practice under which the Council, its Members and officers operate.

The Council consists of 60 elected Members, with an Executive of the Leader and Portfolio Holders who are supported and held to account by Scrutiny Committee. In order to give local citizens a greater say in Council affairs, the Council operates four area committees. These are responsible for planning, local regeneration schemes and community development in their area.

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

Equality

The Council is committed to delivering equality and improving the quality of life for the people of South Somerset. Any new Council policy, proposal or service, or any change to these that affects people must be the subject of an Equality Impact Assessment to ensure that equality issues have been consciously considered throughout the decision-making processes. The Council has approved a new Equality and Diversity Policy in March 2019.

Managing Risk

The Council's Risk Management Policy is fundamental to the system of internal control. It involves an ongoing process to identify the risks to our policies, aims and objectives and to prioritise them according to likelihood and impact. It also requires the risks to be managed efficiently, effectively and economically. All Members and managers are responsible for ensuring that risk implications are considered in the decisions they take. This applies to all significant programmes, projects and initiatives as well as any recommendations for material changes to current practices.

Work has been undertaken in early 2019 to review the SSDC approach to risk. This has included a simplification of the categories of risk, which it is proposed will provide a clearer route for escalation for risk owners. Furthermore a simpler and more transparent risk register template has been developed to encourage utilisation and ownership of risk at the appropriate level of the organisation. This will be enabled through supported risk reviews according to an agreed timetable.

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

Financial Management

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

In March 2016 the Council agreed a Headline Business Case for Transformation. Further work was undertaken on the development of a new operating model and a more detailed business case, which was approved in April 2017. Transformation puts the customer at its heart, and seeks to drive benefits through implementing new ways of delivering services, providing more services digitally and modernising our business processes. The financial implications required up front implementation costs estimated at £7.45m and annual savings rising to £2.48m per year by 2019/20.

South Somerset set a balanced budget for 2018/19 and has also achieved this for 2019/20. The 5-year Medium Term Financial Plan agreed in February 2019 incorporates the savings from transformation and good early progress in increasing income from commercial and treasury investment activity. In 2017 the projected annual budget gap – the difference between our funding and our net costs – was forecast to reach £5.2m. The current MTFP forecasts a remaining gap of £1.6m by 2023/24, which the Council plans to address mainly through further income generation.

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

There are robust arrangements for effective financial control through our accounting procedures, key financial systems and the Financial Regulations. These include established budget planning procedures and regular financial performance reports to Councillors. Our treasury management arrangements, where the Council invests and borrows funds to meet its operating requirements, follow professional practice and are subject to regular review.

The Council's financial statements and arrangements for securing value for money are reviewed each year by our external auditor. The Council has opted in to the Public Sector Auditor Appointments framework, as an efficient approach to procuring external audit services. Grant Thornton LLP is our appointed auditor for 2018/19 and the subsequent four years.

Commissioning and Procurement of Goods and Services

The Council recognises the value of considering different service delivery options in delivering our Council Plan. The effective commissioning and procurement of goods, works and services is therefore of strategic importance to our operations, while robust contract management helps to provide value for money and ensure that outcomes and outputs are delivered.

The Council has rolled out new procurement guidance and training during 2018/19 to build organisation-wide knowledge and improve procurement practices.

Managing Information

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

Over the past year the Council has been preparing to meet the requirements of the General Data Protection Regulation (GDPR), which came into force under the UK Data Protection Act 2018 on 25 May 2018. This changes how we can collect, use and transfer personal data. A GDPR Action Plan has been established to ensure compliance across all parts of the Council's activities and to raise awareness amongst all staff and members.

Conduct

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

Whistleblowing

People who work for, or with, the Council are often the first to realise that there may be something wrong within the Council. However, they may feel unable to express their concerns for various reasons, including the fear of victimisation. The Council has a Whistleblowing Policy that advises staff and others who work for the Council on how to raise concerns about activities in the workplace. There have been no occasions during the last year where whistleblowing has taken place.

Counter Fraud

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

Benefits related fraud matters are usually referred to the Department for Works and Pensions, who operate the Single Fraud Investigation Services. During 2018/19 there have been some challenges where due to a staff vacancy there has been limited capacity to focus on non-Benefit-related counter fraud initiatives. The S151 Officer and Monitoring Officer are exploring options for enhancing the Council's capacity in this area, in order to provide greater focus on prevention, investigation and prosecution of fraud cases.

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

Transformation

The Council has made significant progress during 2018/19 in delivering its transformation programme. Phases 2 and 3 of the reorganisation of staff into our new operating model was completed during the year with staff moved into new roles by January 2019, and the final Phase 4, focussing on commercial services, was completed in March 2019.

Robust programme and project management arrangements have been maintained throughout the project, with the programme overseen by a Transformation Board (SLT plus lead Members) with a dedicated Strategic Programme Lead also a member of SLT. The key workstreams have all had a clear lead officer to manage each part of the Programme.

The Transformation Board met fortnightly throughout the main implementation period, receiving progress reports and updates on key risks and issues. The Board will continue to meet on monthly basis until formal closedown of the Programme, anticipated during 2019/20. There has been regular engagement with Members with monthly briefings provided by the Chief Executive and other key officers.

Commercial Services and Investment

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

In 2017 strong governance was also approved as part of the Commercial Strategy to oversee and manage a new Investment Fund which is being used to build a portfolio of commercial investment properties. The Council uses specialist staff and advisors to assess and evaluate investment opportunities, with favourable ones presented to an Investment Assessment Group (IAG) comprising the Commercial Services Director, Commercial Property, Land and Development Manager, S151 Officer, Monitoring Officer and Portfolio Holder for Property and Climate Change and Income Generation. A unanimous vote from all members of the IAG is required for an opportunity to proceed for formal consideration and approval. The Council has delegated authority to the Chief Executive, in consultation with the Leader, to approve individual investments of up to £10m per transaction. Those valued above this will require approval of District Executive.

The Council has approved an updated Capital Strategy and Investment Strategy in February 2019, following the requirements of the Prudential Code and new statutory investment guidance.

Regeneration Programmes

During 2018 the Council reviewed its governance arrangements for Strategic Development and Regeneration in South Somerset, with new arrangements agreed by Full Council in May. A new Strategic Development Board (SDB) has been established, comprising the Leader, 4 Area Chairs, relevant portfolio holders covering Economy, Homes, Environment, Infrastructure, Spatial Planning and Development Management. Its key purpose being:

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

The Strategic Development Board and its delivery would be held to account through Scrutiny and Council. Progress with the programme would be reported through the Council's performance management systems including the quarterly performance reports.

The Council has established three priority Regeneration Programme Boards – for Yeovil, Chard and Wincanton. The Boards normally comprise four Members, Chaired by the Area Chair, the Lead Director, Chief Executive, and where appropriate a limited number of key delivery partners. These Boards will oversee their programmes, projects, resources and risks, and report regularly to the SDB.

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

Conclusion

It is our opinion that South Somerset District Council has continued to operate fit for purpose governance arrangements during the year, reflecting our priorities and risks. The main priorities for the past year have focussed on continuing to provide effective and resilient services; progressing the major changes through Transformation; and successful implementation of the Commercial Strategy including commercial investments, other income generation projects and schemes, and creation of a holding company to enable the Council to trade in various services for income generation into the future. We have also made good progress in reviewing and improving our strategic planning and performance management arrangements as demonstrated in the new Annual Plan for 2019/20.

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

With District Elections on 2 May 2019, a key focus during May and June will be welcoming returning and new elected Members to the Council and providing ongoing support in continuing to drive good governance.

Improving Governance Actions

There are no significant governance issues to report for 2018/19. Despite the scale of change it is the assessment of the Leadership Team that the Council's operations and projects have been managed effectively. Assurance is taken from the outcome of the internal audit plan and auditor's opinion.

Improvements and key actions in governance during the last year included:

- Risk Management: The Specialist – Procurement, appointed in July 2018, provides a strategic focus on risk management for the Council and is responsible for developing the Risk Management Strategy. This supplements the responsibilities of all councillors, managers, leads and other staff in managing risk appropriately in their areas of control and responsibility. The Strategic Risk Register has been reviewed in light of the Transformation Programme and our approach to Commercial opportunities. This has resulted in some work with Internal Audit (SWAP) on identifying suitable Strategic Risks. We have also improved engagement with the Audit Committee, providing updates during the latter part of the year on the approach to risk management. A proposed Risk Management Strategy will be piloted with the Future State Project team in April 2019 and discussed with the leadership and the

Audit Committee in May 2019. It will include the proposed risk register hierarchy and escalation, and new risk categories.

- Strategic Planning and Operational Planning: Work has progressed well on this to date, with the development of a new approach to our annual planning cycle, with good member engagement. The development of the Council Plan has progressed well, with a clear link between district wide and local area priorities, reflecting our new Area + working model which will come into effect in 2019, as well as clear KPI which show how we are delivering against our key priorities. The Council agreed the 2019/20 Annual Plan in February 2019.

- Governing the Transformed Council: Work is underway to review the Council's Constitution and other governance arrangements to reflect the newly transformed Council and its services. This work, led by the Director for Strategy and Support Services, will continue in 2019. We have endeavoured to work jointly with neighbouring Councils – Taunton Deane and West Somerset – who are progressing similar work.

- Employment Policies: Good progress has been made to review all employment policies, led by SLT and the Lead Specialist – People. A consultation period has been open from 20 March to 30 April to launch a new employment contract and key employment policies (including a new code of conduct). The remaining policies (not linked to the employment contract) will be reviewed within the next financial year.

- Performance Management: During 2018/19 we reviewed our key performance indicators alongside the preparation of the new Council plan for 2019-20, and agreed our approach to target setting and reporting framework. Employees for phase 3 & 4 received training and support to complete Personal Development Plans during February / March and this will continue into 2019-20 with a planned completion date of July 2019.

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

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

- Constitution: The review and update of the Constitution will be completed, to ensure it reflects governance required for the transformed Council.

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

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

- New Member Induction: With district elections in May 2019, we will implement an important programme of events and training to support the induction of new and returning elected Members.

Audit Findings Report 2018/19

Director	*Netta Meadows, Director – Strategy and Support Services*
S151 Officer	*Paul Fitzgerald, S151 Officer*
Lead Officer:	*Paul Fitzgerald, S151 Officer*
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Purpose of the Report

1. This report introduces Grant Thornton UK LLP's Audit Findings Report for 2018/19.

Recommendations

2. That the Audit Committee considers the matters identified in the report, and note the draft audit findings as outlined in Section two of the report.

3. Note the opinion on the financial statements, opinion on other matters, and the conclusion regarding arrangements for securing economy, efficiency and effectiveness in the authority's use of resources, as stated in Appendix E.

Background

4. Under the Audit Commission's Code of Audit Practice, Grant Thornton report on the overall financial statements and governance of South Somerset District Council. The review of these reports is included within the remit of Grant Thornton under its terms of reference as follows:

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

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

5. The Audit Findings Report summarises the findings from the review undertaken by Grant Thornton, the Council's external auditor.

6. The Grant Thornton report gives an unqualified opinion on the financial statements for 2018/19. It also outlines that in all material respects the Council has complied with the requirements of IFRS (International Financial Reporting Standards).

7. The report states that no material misstatements were identified. Two misclassification and disclosure changes were found and adjustments have been made to the final set of financial statements along with some minor syntax errors as detailed in Appendix C. The action plan agreed by officers is included in Appendix A.

8. Grant Thornton is required to make a statement on whether the authority has made arrangements for securing economy, efficiency and effectiveness in its use of resources i.e. whether it provides value for money. The auditor's conclusion is that the authority has proper arrangements in place in all significant respects.

Financial Implications

9. The fees charged for the audit of the Statement of Accounts are £42,443. This is £4,500 more than anticipated due to additional work in respect of the audit code. These additional fees are subject to approval by Public Sector Audit Appointments (PSAA) in line with the terms of appointment of external auditors. Non audit fees for the Housing Benefit grant certification are £8,000. There are no additional financial implications associated with the report.

Background Papers: *None*

The Audit Findings for South Somerset District Council

Year ended 31 March 2019

16 July 2019

Contents

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Section	Page
1. Headlines	3
2. Financial statements	4
3. Value for money	14
4. Independence and ethics	18

Appendices

A. Action plan

B. Follow up of prior year recommendations

C. Audit adjustments

D. Fees

E. Audit Opinion

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

Headlines

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

Financial Statements	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements: • give a true and fair view of the financial position of the Council and the Council's income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. Our audit work was completed on site during June and July. Our findings are summarised on pages 4 to 9. We have not identified any misstatements or errors that have resulted in an adjustment to	the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B. Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion Appendix E or material changes to the financial statements, subject to the following outstanding matters; - review of accounting policies - completion of substantive testing in relation to revenue, debtors and provisions - completion of checks around the consistency of the movements in reserves statement - receipt of management representation letter; and - review of the final set of financial statements. We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited. Our anticipated audit report opinion will be unmodified
Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Council's value for money arrangements. We have concluded that South Somerset District Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 14 to 17.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • to certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

Acknowledgements

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

Summary

Overview of the scope of our audit

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

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

Audit approach

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

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

We have not had to alter or change our audit plan, as communicated to you on 28 March 2019.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 25 July 2019, as detailed in Appendix E. These outstanding items are outlined in the headlines on slide 3

Our approach to materiality

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

Materiality calculations remain the same as reported in our audit plan. We detail in the tale below our assessment of materiality for South Somerset District Council

	Value (£)	Qualitative factors considered
Materiality for the financial statements	1,530,000	This equates to 2% of your 2018/19 gross expenditure for the year. This was determined as the appropriate benchmark for determining materiality.
Performance materiality	1,147,500	This equates to 75% of materiality. No significant issues have been identified this year or in prior years that would increase the risk of misstatement
Trivial matters	76,500	ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.
Materiality for Senior officer remuneration	20,000	Senior Officers' Remuneration is a balance which require a lower materiality due to its sensitive nature.

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
1	**The revenue cycle includes fraudulent transactions** Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including South Somerset District Council, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for South Somerset District Council.	**Auditor commentary** As per the audit plan this risk has been rebutted. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at South Somerset District Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, in summary because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of Local Government authorities, including South Somerset District Council means that all forms of fraud are difficult to rationalise i.e. the culture and ethics mitigate against fraud being seen as acceptable This assessment is made without placing specific reliance on the entity-level controls which we have identified at South Somerset District Council, but consideration of these controls confirms the appropriateness of our assessment. **There have been no changes to our assessment as reported in our Audit Plan.**
2	**Management override of controls** Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance. Management over-ride of controls is a risk requiring special audit consideration.	**Auditor commentary** We have performed the following work in respect of this risk: • gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness; • obtained a full listing of journal entries and identified and subsequently tested any unusual journal entries for appropriateness; and • evaluated the rationale for any changes in accounting policies and any significant unusual transactions or estimates. Our audit work has not identified any issues in respect of management override of controls.

Page 24

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
3 **Valuation of property, plant and equipment** The Council revalues its larger assets on an annual basis and the remaining assets on a rolling basis over a five year period to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements. We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration	**Auditor commentary** We have performed the following wok in respect of this risk: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • written to the valuer to confirm the basis on which the valuations were carried out; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; and • tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authority's asset register. We identified that all land and buildings are classified as specialist assets and have been valued using the depreciated replacement cost (DRC) method. A detailed review of estimation processes is included within the key judgement and estimates section on Page 7. **Our audit work has not identified any issues in respect of valuation of land and buildings.**
4 **Valuation of pension fund net liability** The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements. We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.	**Auditor commentary** We have performed the following wok in respect of this risk: • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • maintained ongoing communication around the impact of the McCloud /Sergeant court judgement on the pension liabilities reported by the Authority to ensure that these are materially stated and in line with proper accounting practices; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report. **Our audit work has not identified any issues in respect of valuation of pension fund net liability**

Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
Provisions for NNDR appeals - £1.3m	The Council are responsible for repaying a proportion of successful rateable value appeals. Management calculate the level of provision required. Management's calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates. Due to an increase in outstanding appeals, the provision has increased by £50k in 2018/19.	• Estimate is based on historical data and on success rates in prior appeals. • There has been no change to the valuation method • The method of calculation is consistent with that used by other authorities. • The value of the estimate will fluctuate dependent on a number of factors. • The increase of £50k is considered to be reasonable based on the amount of outstanding appeals • disclosure of estimate in the financial statements is considered to be appropriate and in line with the Code We are still to complete our work in this area.	**TBC**
Land and Buildings – Other - £48.779m	Other land and buildings comprises £48.779m of assets, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The Authority has engaged DVS Property Specialists to complete the valuation of properties as at 31 March 2019. 75% of the assets were revalued during 2018/19. The valuation of properties valued by the valuer has resulted in a net increase of £1.2m. The Authority has moved away from the five year rolling programme of revaluations in order to ensure that all revalued assets falling under the same class are assessed at the same time.	• We reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work. We then considered the competence, expertise and objectivity the valuer in their capacity as the management experts used. • We reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding and challenged key assumptions where appropriate. • We tested revaluations made during the year to ensure they are input correctly into the asset register and subsequently recorded in the financial statements. We are satisfied that the Council has adopted an appropriate approach.	● **Green**

Assessment

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

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Net pension liability – £76.596m	The Authority's total net pension liability at 31 March 2019 is £76.596m (PY £81.138m) comprising the Somerset Pension Fund Local Government. The Authority uses Barnet Waddingham to provide actuarial valuations of the Authority's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £8m net actuarial gain during 2018/19.	See below	● Green

Audit Comments

- We identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. This included gaining assurances over the data provided to the actuary to ensure it was robust and consistent with our understanding. No issues were identified from our review of the controls in place.
- We also evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuations and gained an understanding of the basis on which the valuations were carried out. This included undertaking procedures to confirm the reasonableness of the actuarial assumptions made.

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.4%	2.4%-2.5%	● Green
Pension increase rate	2.5%	2.4%-2.5%	● Green
Salary growth	3.9%	Dependent on employer	● Green
Life expectancy – Males currently aged 45 / 65	24.6 / 22.9	22.2-25 / 20.6-23.4	● Green
Life expectancy – Females currently aged 45 / 65	25.8 / 24.0	25.0-26.6 / 23.2-24.8	● Green

- We checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial reports and did not identified any inconsistencies.
- The Authority has considered that the impact of GMP equalisation is not material to the Statement of Accounts. We are continuing to discuss this with the Authority and the potential impact of this on the Statement of Accounts.

Assessment

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

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Level 2 investments	The Council have investments in a number of investment properties that are valued on the balance sheet as at 31 March 2019 at £26.109m. The investments are not traded on an open market and the valuation of the investment is subjective. In order to determine the value, management have employed DVS Property Specialists as management experts. The valuation was based on the market approach and are classed as Level 2 which have taken the form of analysed and weighted market evidence such as sales, rentals and yields in respect of comparable properties in the same or similar locations at or around the valuation date. The value of the investment has increased by £8.476m in 2018/19 due to the purchase of additional properties with a value of £12.076m and net losses from fair value adjustments of £3.341m.	• We reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work. We then considered the competence, expertise and objectivity the valuer in their capacity as the management experts used. • We reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding and challenged key assumptions where appropriate. • We tested revaluations made during the year to ensure they are input correctly into the asset register and subsequently recorded in the financial statements. We are satisfied that the Council has adopted an appropriate approach.	● Green

Assessment

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

Significant findings – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

	Significant matter	Commentary	Auditor view
1	**SSDC Opium Power** As part of their investment strategy the Council have partnered with Opium to set up a special purpose vehicle (SPV) to deliver a renewable energy project.	The shares are jointly held with SSDC and Opium Power Ltd each holding a 50% interest. The Council has provided a secured term loan facility to the SPV to finance the acquisition of long term assets with the loan to be fully repaid before any distribution of profit to shareholders. The draft unaudited accounts of the joint operation for the year ended 31 March 2019 disclose net liabilities of £222k and a net loss of £222k.	The Council has considered the requirements for disclosure of the relationship within the statement of accounts and this has been reviewed by the Audit team against the requirements of the code and the relevant accounting standards. Work undertaken has concluded that the disclosures within the statement of accounts are appropriate.
2	**Potential impact of the McCloud judgement** The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members. The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy. The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits.	Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government bodies. The Council has requested an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate was of a possible increase in pension liabilities of £281k, and an increase in service costs for the 2019/20 year of £27k. Management's view is that the impact of the ruling is not material for South Somerset District Council, and will be considered for future years' actuarial valuations.	We have reviewed the analysis performed by the actuary, and consider that the approach that has been taken to arrive at this estimate is reasonable. Although we are of the view that there is sufficient evidence to indicate that a liability is probable, we have satisfied ourselves that there is not a risk of material error as a result of this issue. We also acknowledge the significant uncertainties relating to the estimation of the impact on the Council's liability. We have included this as an uncertainty within Appendix C.

Going concern

Our responsibility

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

Going concern commentary

Management's assessment process	Auditor commentary
The Authority has a Medium Term Financial Plan (MTFP) that runs to 2023/24. The Authority also has an Integrated Risk Management Plan setting out priorities and plans to 2022. The CIPFA Code confirms that entities should prepare their financial statements on a Going Concern basis unless the services provided are to cease. There is no indication from Government that the services provided by the Authority	• Management have determined that there is no evidence of an intention to cease the provision of services, and have therefore adopted the going concern assumption. We have not identified any issues through our review and enquiries that suggest that this is not appropriate. • We are satisfied that the going concern assumption is appropriate for the Authority’s financial statements and is in line with accounting standards and the CIPFA Code.

Other communication requirements

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

	Issue	Commentary
1	**Matters in relation to fraud**	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any incidents in the period and no issues have been identified during the course of our audit procedures.
2	**Matters in relation to related parties**	We are not aware of any related parties or related party transactions which have not been disclosed
3	**Matters in relation to laws and regulations**	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4	**Written representations**	A standard letter of representation has been requested from the Authority, which is included in the Audit Committee papers.
5	**Confirmation requests from third parties**	• We requested from management permission to send confirmation requests for bank and investment balances. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation. • We requested from management permission to send confirmation requests to the pension fund auditor. This permission was granted and the requests were sent. We have not yet received the final response from the pension fund auditor and will require this prior to issuing our opinion.
6	**Disclosures**	Our review found no material omissions in the financial statements.
7	**Audit evidence and explanations/significant difficulties**	• All information and explanations requested from management were provided. • We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Page 31

Other responsibilities under the Code

	Issue	Commentary
1	**Other information**	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix E
2	**Matters on which we report by exception**	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters.
3	**Specified procedures for Whole of Government Accounts**	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Note that work is not required as the Council does not exceed the threshold.
4	**Certification of the closure of the audit**	We intend to certify the closure of the 2018/19 audit of South Somerset District Council in the audit opinion, as detailed in Appendix E.

Page 32

Value for Money

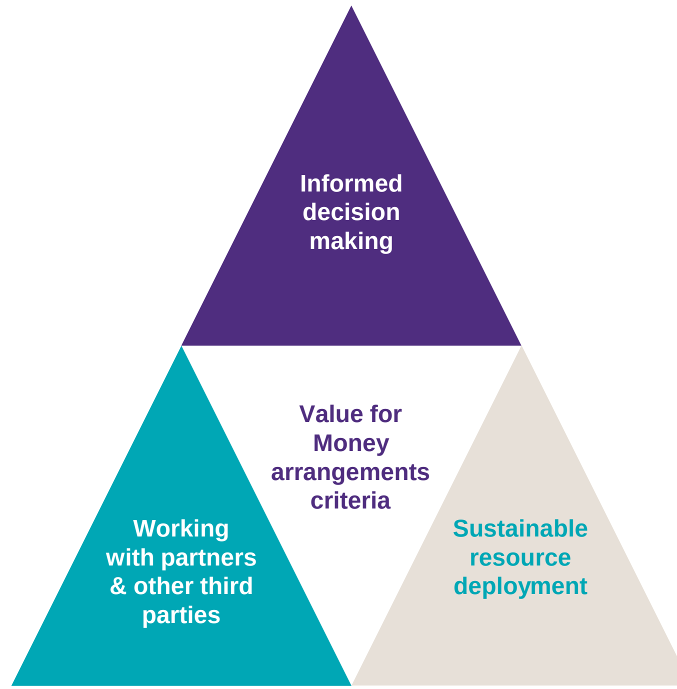
Background to our VFM approach

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

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

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

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



Risk assessment

We carried out an initial risk assessment in December 2018 and identified a significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 15 January 2019

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

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

Value for Money

Our work

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

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

- The governance and decision making arrangements implemented by the Council to ensure those charged with governance are provided with appropriate and adequate information to direct the Commercialisation strategy
- Consideration of external factors and ensuring that actions taken are in line with the strategy
- The implications of the costs and savings within the framework of the medium term financial strategy and the ongoing savings required as a result of the financial pressures within the region

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 16 to 17.

Overall conclusion

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

The text of our report, which confirms this can be found at Appendix E.

Significant difficulties in undertaking our work

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

Significant matters discussed with management

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

Key findings

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

Significant risk

Transformation Programme – Commercialisation Programme

The Council is in the process of implementing an ambitious programme to redesign the organisation and methods of service delivery to deliver more customer focussed, lean, efficient services and release recurring significant savings in future years.

In order to deliver this transformation, the Council will need to make an upfront investment of some £7.5m to cover the cost of restructuring, including £4.5m of redundancy costs, as well as the cost of new IT infrastructure.

The first stage of the transformation programme has now been complete and all service areas have been reviewed and restructured. The Council now needs to ensure that momentum is maintained and that the Commercialisation programme, designed to increase revenue, is properly implemented. Failure to do so could lead to loss of income, missed savings targets and potentially failure by the Council to deliver services to the local population.

Page 35

The successful implementation of the commercialisation strategy represents a significant risk to the Council in terms of:

- Achievement of revenue targets to fund delivery of services
- Robust governance over decisions made, with transparency and clarity for elected members
- Close monitoring of costs and revenues generated as a result of decisions made to ensure that the overall financial benefits are realised and that returns are in line with assumptions
- Appropriate expertise employed by the Council to deliver the strategy and identify appropriate and relevant opportunities to maximise benefit to the organisation.

Findings

South Somerset District Council (the Council) is in a position where it needs to save costs and generate additional income over the coming years, if it is to be financial sustainable and be able to meet community needs. To this end an income generation programme was set up with the sole aim of helping the council in becoming financially sustainable. The Council has observed a number of local authorities being successful in generating significant net additional income through the implementation of strategic and commercial approaches to land and property including renewables, acquisition of commercial property and housing and the direct development of land.

The financial implication for this was the set up of a ringfenced £15m which was ‘earmarked’, later increased to £75m,to enable the overall capital programme to be set and financed in the most efficient way possible. The expectation is that any investment would generate income well in excess of the costs of borrowing and that any emerging projects would be approved through the new procedures set up and though District Executive and possibly full council, if required. The project also allowed for urgent decisions to be made by the Chief Executive if the need arose.

The commercial strategy was approved by Council in August 2017 which included a new Commercial Strategy for 2017-2021 with the aim to manage assets and investments well with:

- Clear policies on property asset classification and purpose: income generating, strategic value, operational need
- Achieving a balanced portfolio with risks effectively managed
- A significant investment fund supported by effective governance and appraisal processes
- Appetite to support capital investment through borrowing with the principle that investment returns fund the financing costs and provide a net return after borrowing costs for reinvestment in services
- Invest in operations capacity to deliver the strategy.

The Commercial strategy forms a main plank of both the Transformation Project and the MTFP and the aim of the commercial strategy is to provide a net increase in income in excess of £2.25m per year by 2020/21, with a stretch target of £3m per year.

As part of the governance process, regular reports are taken to District Executive, the first of which was reported in June 2018. The Commercial strategy and investments progress report is a regular report to inform members on progress to date and commercial investment activity.

As part of the commercial strategy the Council agreed that the normal approval process may compromise the commercial interests of the Council. It was therefore agreed that the investment process would include:

- All potential investments being required to meet the parameters of the Commercial Strategy agreed by the Council including rate of return and the creation of a balanced portfolio
- All potential investments being required to go through a rigorous assessment and due diligence process including assessment of risk and mitigation
- That investments would be assessed by a newly established Investments Assessment Group (IAG) comprising the Portfolio Holder, Commercial Director, S151 Officer, Monitoring Officer and Commercial Property, Land and Development Manager and there is a requirement for a unanimously agreed recommendation from this group on investment proposals

Key findings (Continued).

Significant risk	Findings
Transformation Programme – Commercialisation Programme	• That the final decision on investments be delegated to the Chief Executive in consultation with the Leader, up to an agreed limit (with no such proposals being considered unless a unanimous recommendation comes forward from the IAG). As at June 2019 the total amount invested was £36m on four commercial investments which were funded through a combination of reserves and borrowing. At this point the plan was to utilise £18.1m of borrowing towards the funding of these investments with the balance from capital/revenue reserves. Part of the ongoing reporting to members is to demonstrate not only those investments made and the performance thereof but also to identify those assets that the Council could have potentially invested in and chose not to. This is to demonstrate a prudent and regimented approach is being taken to investment decisions and that there is robust challenge of investment opportunities. The IAG is the main group responsible for this and have set a benchmark of a 7% return on investment for any investment. However, should an investment opportunity not return 7% it is not an automatic decision that the Council will not invest, each individual opportunity is reviewed on its merits before a decision is made. An Internal Audit report on Commercial Strategy/Income Generation in February 2019 provided reasonable assurance and noted that most of the areas reviewed were found to be adequately controlled. Generally risks are well managed, but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives. As noted, decisions on whether to invest or dispose of assets is taken by the IAG and the Disposal Assessment Group (DAG). Notes of IAG and DAG are not generally shared with members due to commercial sensitivity but are covered in the recommendations to the CEO and Leader for the formal decision process in line with delegation from Council. Members are informed more generally on commercial activity in the 6 monthly reports that are reported to District Executive. **Conclusion** The Council has a clear investment strategy in place that is designed to increase revenue and cover the gap within the MTFS with the ultimate aim of making the Council more financially resilient in future years. The strategy aims to invest in assets that will provide a return of 7% or more and also deliberately made sure that they hold a mixed portfolio to ensure resilience against the market and from exposure against one specific sector. The decision making process involves a number of members and senior management who have been given delegated decisions making powers by the Council in order to be agile and allow decisions to be made quickly and in line with the market. The key decision making committees are the Investment Assessment Group (IAG) and the Disposal Assessment Group (DAG). The Council have chosen to devolve the decision making process and the performance to date, with the clear consideration of the factors that impact on future decisions, demonstrate that the Council have a robust governance process. However, the frequency of reporting at every six months should be kept under review to ensure that is sufficient to enable Members to effectively monitor and challenge decisions in a timely way. We therefore conclude that the Council have appropriate processes in place for achieving value for money.

Independence and ethics

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

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

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

Details of fees charged are detailed in Appendix D

Audit and Non-audit services

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

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing capital receipts grant	8,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £8,000 in comparison to the total fee for the audit of £37,943 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

Action plan

We have identified one recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendation with management and we will report on progress on this recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and risk	Recommendations
1	● Amber	The Council have had a number of assets revalued in the year. A review of the fixed asset register identified that not all revalued assets had been updated and there is a risk that the accounts will not accurately disclose the value of assets and revaluations in the year	The Council should ensure that all assets revalued in the year are appropriately disclosed in the fixed assets account and the statement of accounts **Management response** • Agreed – going forward an additional reconciliation check will be implemented to ensure the final revaluations processed matches back to the final Valuation Report for each individual category
2	● Green	District Executive and Council are informed of progress against the Commercialisation project on a six monthly basis. Given that the strategy is central to the overall Council strategy, and achievement of financial sustainability, there is a question as to whether this is a regular enough timeframe to allow members to fully understand and challenge, on a timely, the issues being raised as part of the strategy	The Council should review the frequency of reporting of the commercialisation strategy progress report to ascertain whether members are being provided with information in a timely manner to allow consideration and robust challenge. **Management response** • Management considers the current frequency of reporting is appropriate and fits with the pace of implementing the commercial strategy. In between the 6-monthly reports, all members are notified and press releases issued with each completed investment, and financial information is also reflected as appropriate in the more frequent budget monitoring reports. However we will consider this as part of ongoing development of the Members' portal online, providing remote access to past and current reports and information, at any time they require it. For example, links to Asset Update reports and commercial activity press release data can be added.

Key

- ● High priority – Significant effect on Council's control systems or financial environment that requires urgent attention
- ● Medium priority – There is some impact on Council's control systems or financial environment that requires attention to address in the medium term
- ● Low priority – To move the Council to best practice

Follow up of prior year recommendations

We identified the following issue in the audit of South Somerset District Council's 2017/18 financial statements, which resulted in the following recommendation being reported in our 2017/18 Audit Findings report. We are pleased to report that management have implemented our recommendation.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	✓	The Council have made a number of amendments to the statement of accounts as a result of an exercise to reclassify assets. This has resulted in a prior period adjustment for those assets which have been reclassified as investment properties and for one asset classified as an investment property that is now classified as inventory. There is a risk that the Council will misclassify assets leading to incorrect balance sheet disclosures.	There have been no such reclassifications in the year and audit work undertaken considers that assets have been appropriately classified within the statement of accounts.

Assessment

✓ Action completed

X Not yet addressed

Audit Adjustments

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

Impact of adjusted misstatements

There are no adjusted misstatements .

Misclassification and disclosure changes

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

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Inventory Note	The council have a material inventory of £3.7m and should include a disclosure note showing the opening and closing balances and any relevant movements in the year	The Council should include an inventory note within the statement of accounts to show the movement within the year	✓
Collection Fund	Review of the collection fund identified That precepts and demands had been incorrectly allocated to precepting bodies	The Council should review the collection fund note and ensure that precepts and demands are accurately disclosed within the statement of accounts	✓
General Disclosures	Other general amendments	Other amendments including spelling, grammar and syntax and other minor disclosures which have not been separately disclosed should be adjusted and included.	✓

Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The South Somerset District Council Committee is required to approve management's proposed treatment of all items recorded within the table below:

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
1	Revalued assets have not been updated in the Fixed Asset Register and statement of accounts		148	148	Not material
2	As part of the McCloud ruling the Council have undertaken a materiality review and identified that there is an understatement in the estimated impact on total liabilities as at 31 March 2019		281	281	Not material
	Overall impact		£429	£429	

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2017/18 financial statements.

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
1	Depreciation in relation to prior period reclassification of investment properties 2016/17	Cr Depreciation - £137	Dr Accumulated depreciation -£137	£(137)	Not material
2	Council policy is not to depreciate in year of acquisition. However depreciation for assets purchased in 2016/17 was omitted in error in 2017/18	Dr Depreciation – £150	Cr Accumulated depreciation - £150	£150	Not material
	Overall impact	£13	£13	£13	

Fees

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

Audit Fees

Our Audit Plan included a PSAA published scale fee for 2018/19 of £37,943. Our audit approach, including the risk assessment, continues as the year progresses and fees are reviewed and updated as necessary as our work progresses.

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

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

Additional Audit Fees

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

Total Audit Fees

Audit fee	Actual 2017/18 fee £	Planned 2018/19 fee £	Final 2018/19 fee £
Council Audit	49,276	37,943	37,943
Additional Audit Fee (see above)	-		4,500
Total audit fees (excl VAT)	**49,276**	**37,943**	**42,443**

Non Audit Fees

Fees for other services	Fees £
Audit related services:	
Certification of Housing Benefit (estimate)	8,000
Total fees for other services	**8,000**

Audit opinion (Draft)

We anticipate we will provide the Council with an unmodified audit report

Independent auditor's report to the members of South Somerset District Council
Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of South Somerset District Council (the 'Authority') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Account and notes to the financial statements, including the accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the S151 Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the S151 Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The S151 Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts 2018-2019, the Narrative Report, the Glossary of Terms, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are

Audit opinion (Draft)

not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts 2018-2019, the Narrative Report and the Glossary of Terms for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the S151 Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 17, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the S151 Officer. The S151 Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the S151 Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the S151 Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy,

Audit opinion (Draft)

efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements – Certificate

We certify that we have completed the audit of the financial statements of South Somerset District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed

Signature

Barrie Morris, Key Audit Partner

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

[Date]

Agenda Item 8

Statement of Accounts 2018/19

Director	*Netta Meadows, Director – Strategy and Support Services*
S151 Officer	*Paul Fitzgerald, S151 Officer*
Lead Officer:	*Nicola Hix, Lead Specialist - Finance /Deputy S151 Officer*
Contact Details:	*nicola.hix@southsomerset.gov.uk or 01935 462612*

Purpose of the Report

1. This report presents the 2018/19 Statement of Accounts to Audit Committee for approval.

Recommendations

2. To note the external auditor's unqualified opinion on the financial statements.

3. To approve the 2018/19 Statement of Accounts. A copy of the Statement of Accounts has been circulated separately with this agenda.

4. To authorise that the S151 Officer sign the Letter of Representation.

Background

Please contact Nicola Hix or Catherine Hood before the meeting on 01935 462612 or 01935 462157 with any questions on the information presented.

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

6. As previously reported to the Committee, the Accounts and Audit Regulations (England) 2015 came into force on 1 April 2015 bringing changes to requirements for the approval and publication of the annual Statement of Accounts, including:

   - The responsible finance officer certifies the annual accounts no later than 31 May and they must be published with the audit opinion, having been approved by Members and re-certified by the responsible finance officer, no later than 31 July.

   - The responsible finance officer must ensure that the period for the exercise of public rights includes the first 10 working days of June. The period for the exercise of public rights (which includes the rights of objection, inspection and questioning of the external auditor) may only be exercised within a 30 day period.

   - The inclusion of a narrative statement, including commentary by the authority on its financial performance and economy, efficiency and effectiveness in its use of resources over the relevant financial year.

7. The Statement of Accounts for 2018/19 has been prepared following International Financial Reporting Standards (IFRS) and in compliance with the Local Authority Accounting Code of Practice.

8. This report:

- Outlines the key features of the 2018/19 revenue outturn position
- Summarises the 2018/19 capital outturn position
- Presents the 2018/19 Statement of Accounts and explains the key features and reasons for variations within those accounts
- A response to the auditor's report.

Key Features of the 2018/19 Outturn Reports

Revenue Outturn

9. The end of year position of Net Expenditure against the Net Budget – the "outturn" – for the Council Services in 2018/19 is a net underspend of £259,564 (1.6%). Below is a summary of the figures presented to the District Executive on 4th July 2019.

Table 1 – Revenue Budget Outturn 2018/19

Directorate	Original Budget £'000	Movement During the Year £'000	Final Budget £'000	Actual Spend £'000	Variation on Spend £'000	Variation on Spend after Carry Forwards
Chief Executive	-284	950	666	715	49	57
Strategy and Support Services	5,529	1,170	6,699	6,163	-536	-471
Service Delivery	2,547	-1,005	1,542	1,825	283	310
Communities	1,302	-275	1,027	986	-41	11
Commercial Services & Income Generation	7,390	-717	6,673	6,658	-15	4
Total	**16,484**	**-123**	**16,607**	**16,347**	**-260**	**-89**

(Negative figures = income / reduction in budget, positive figures = costs)

Carry Forwards

10. The District Executive approved £170,282 of specific carry forwards into 2019/20.

Revenue Balances and Reserves

11. The Council has £4.496m of revenue balances with £4.048m remaining uncommitted at the year end. At the year end the estimated requirement was to retain between £2.8m and £3.1m to meet the Council's key financial risks.

12. Revenue Earmarked Reserves totalled £17.506m at the end of the financial year. These reserves are actual cash sums set-aside for specific purposes.

Capital Outturn Report

13. The overall position for the Capital Budget for 2018/19 is that total spending amounted to £28.414m; this was £19.506m (319%) more than the original planned expenditure of £8.908m. Amendments have been reported to members each quarter and the revised Capital Programme approved.

Loans

14. As part of the agreed loans policy the amount of any outstanding loans issued by the Council to third parties at the end of each financial year must be reported to District Executive. Outlined below is the summary of the figures presented to the District Executive on 4th July 2019 for loan balances as at 31 March 2019:

Table 2 – Outstanding Loans 2018/19

Borrower	Original Sum Lent £	Fixed Interest Rate	Amount Outstanding at 31st March 19 £	Period of Loan	Final Repayment Date
Hinton St George Shop	190,000	2.67%	156,829	20 years	February 2036
Somerset Waste Partnership	1,567,216	2.22%	1,017,294	7 years	August 2023
SSDC Opium Power Ltd	9,840,000	5.00%	9,840,000	7 Years	July 2026
SSDC Opium Power Ltd	1,351,650	5.25%	1,351,650	1 Year	March 2020
Total Outstanding	**12,948,866**		**12,365,773**		

15. There is also £7,612 outstanding in sale of council house mortgages, and £25,964 in car and bike loans.

16. Wessex Home Improvement Loans (WHIL) works in partnership with the Council to provide finance to home owners for essential maintenance and improvement works to their property. Loans are increasingly replacing grants allowing the Council to re-circulate funds. The Council has £672,988 of capital invested with WHIL. As at 31st March 2019 there was £486,921 on the loan book and £186,067 as available capital.

Statement of Accounts

17. The external auditor – Grant Thornton – have reviewed the annual Statement of Accounts and supporting working papers and issued their opinion as to whether the Statements presents a true and fair view of the financial position of South Somerset District Council at 31 March 2019 and its income and expenditure for the year then ended. The Audit Findings Report is included on the agenda for this Committee.

18. A copy of the Statement of Accounts has been circulated separately with this agenda.

Key Features from the Statement of Accounts

19. The Statement of Accounts contains four core statements reflecting the financial position of the Council as at 31 March 2019. These are:

- Comprehensive Income and Expenditure Statement
- Movement in Reserves Statement
- Balance Sheet
- Cash Flow Statement

20. There is also an additional statement and notes relating to the Collection Fund (which deals with the collection and distribution of Council Tax and Business Rates).

21. It is a statutory requirement for all local authority financial statements to be IFRS compliant.

Comprehensive Income and Expenditure Statement

22. This account gives detailed information about the total expenditure on the services the Council provide. It also shows the council tax and government grants received to help pay for those services. The net operating expenditure figure is reconciled to the outturn spend position reported to District Executive in the following way:

Table 3 – CIES extract for 2018/19

	£'000
Total Spend Reported to the District Executive	**16,347**
Amounts not reported to management but included on Costs of Services in Comprehensive Income and Expenditure Statement.	9,010
Net Cost of Services **(taken from the Comprehensive Income and Expenditure Statement, page 33 of the financial statements)**	**25,357**

Movement in Reserve Statement

23. Reserves represent the council's net worth and shows its spending power. This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable' reserves.

Table 4 – MIRS extract for 2018/19

	Useable Reserves	**Unusable Reserves**	**Total £'000**
31 March 2018	49,596	-23,982	25,614
Movement	-2,507	4,797	2,290
31 March 2019	**47,089**	**-19,185**	**27,904**

(Minuses represent liabilities)
(taken from the Movement in Reserves Statement, page 34 of the financial statements)

24. The majority of the movement in useable reserves relates to the capital receipts reserve. £4.324m of the capital receipts reserve was used to finance the capital programme and we received £2.132m in capital receipts.

25. With regard to unusable reserves, the pension reserve liability reduced by £4.542m due to actuarial assumptions, asset valuations and employer contributions.

Balance Sheet

26. The Balance Sheet provides a snapshot of our financial position overall as at the 31 March 2019. The Council's net assets amounted to £27.903m (£25.617m at 31 March 2018). This comprises both usable resources and unusable reserve account balances.

27. The balance in the statement of accounts include the large pension fund liability balance, which will be recovered over the long term, with the Council making payments each year to reduce the balance.

28. In practice, the amount of "net worth" that can be used is £47.09m. This can be broken down into:

Usable Capital Receipts	£22.798m
Capital Grants Unapplied	£1.694m
Earmarked Reserves	£17.506m

General Fund Balances	£4.593m
Share in Joint Venture	£0.497m

29. In addition, Members will note the contingent liabilities disclosed in note 48. Contingent liabilities are possible future obligations; they are not accounted for within the balance sheet as the obligation will only be confirmed if uncertain events happen in the future. Any claims would need to be funded from SSDC balances.

Cash Flow Statement

30. This statement outlines the changes in cash and cash equivalents of the Council during 2018/19.

31. There has been a net decrease in cash and cash equivalents of £1.502m.

32. Cash Equivalents are short-term highly liquid investments that are readily convertible within 24 hours to known amounts of cash and which are subject to an insignificant risk of change in value.

Collection Fund

33. The total amount of Council Tax due for the year, which the council has collected on behalf of all of the precepting authorities (e.g. Somerset County Council, Police and Crime Commissioner, Devon & Somerset Fire & Rescue Authority and town/parish councils) was £103.252m. There is a deficit balance of £0.433m on the Council Tax element of the Collection Fund account at the year end. This deficit is split in proportion to the amount of each authority's precept.

34. Business rates retention is intended to provide incentives for local authorities to drive economic growth locally. The funding regime is based on performance and has increased the need to monitor and proactively agree priorities to maximise business rate income. The share to be paid to central government from business rates collected is 50%. Therefore 50% of business rates is retained locally (40% South Somerset District Council, 9% Somerset County Council, 1% Devon & Somerset Fire and Rescue Authority). There is a surplus balance of £2.235m at the year end. This surplus is apportioned across central government 50%, South Somerset District Council 40%, Somerset County Council 9% and Devon & Somerset Fire and Rescue Authority 1%.

Auditor's Opinion

35. Grant Thornton UK LLP anticipate issuing an unqualified audit opinion, which is good news and endorses that the accounts provide a true and fair view of the financial statements as at 31st March 2019.

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

37. During the audit no material misstatements were identified. Two misclassification and disclosure changes were found and adjustments have been made to the final set of financial statements along with some minor syntax errors.

Financial Implications

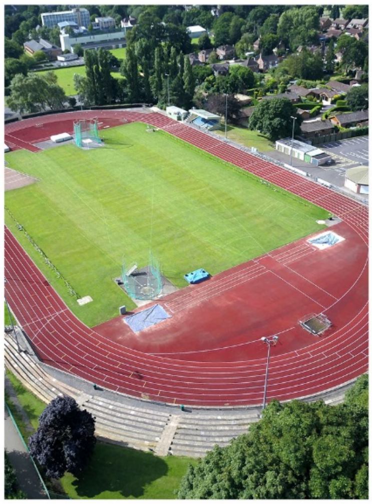
38. There are no financial implications associated with these recommendations.

39. The S151 Officer would like to acknowledge the significant work of the Finance team and colleagues in preparing the annual accounts and extensive supporting information and working papers, and in supporting the audit to its successful conclusion. Thank you to all involved.

Background Papers: _Revenue outturn 2018/19_
Capital outturn 2018/19

South Somerset
District Council

Draft (Unaudited)
Statement of Accounts
2018/2019



Contents

	Page Number
Narrative Report	3
Independent Auditors report to the Members of South Somerset District Council	14
Statement of Responsibilities for the Statement of Accounts	18
Statement of Accounting Policies	19
The Core Financial Statements	
• Comprehensive Income and Expenditure Statement	33
• Movement in Reserves Statement	34
• Balance Sheet	35
• Cash Flow Statement	36
Notes to the Core Financial Statements	37
Collection Fund Account	75
Glossary of Terms	78
Contact Details for further information	85

Narrative Report to the Statement of Accounts

Introduction

The purpose of this narrative report is to provide information about the Council, its main objectives and strategies, how it has used its resources to meet these, and describe the principle risks it faces. It also aims to provide a simple and concise view of the Council's financial position and performance.

Organisational Overview and External Environment

South Somerset forms much of the eastern side of the County of Somerset. It comprises nearly a third of the County with a population of 167,000 and covers an area of 370 square miles (958 square kilometres). South Somerset consists of a mixture of both sparsely inhabited rural areas and a network of market towns. The rural nature of the area is emphasised by the low population density of 1.7 persons per hectare (the England average is 4.1).

Yeovil and Chard are the 2nd and 6th biggest towns in Somerset. South Somerset has 121 parishes with 102 parish and town councils and 39 wards.

As a shire district, the Council delivers local services within a two-tier structure of principal local government authorities, with 'upper tier' services provided by Somerset County Council and 'lower tier' services provided by South Somerset District Council. The District Council is responsible for a range of services including (but not limited to):

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

In 2016 the Council agreed its strategic Council Plan for 2016 to 2021, setting out the Council's ambition to make major changes in the way it operates and delivers services, whilst continuing to deliver services and priority projects that meet the needs of our residents, visitors and businesses. Each year the Council updates its priorities to create an 'Annual Action Plan'.

The Council Plan outlines five broad areas of focus that will help us to achieve our vision for South Somerset: **a place where businesses flourish, communities are safe, vibrant and healthy; where residents enjoy good housing and cultural, leisure and sporting activities**.

One Team, Ambitious for South Somerset

Governance

The Annual Governance Statement (AGS) is published alongside the Statement of Accounts on the Council's website. There are no significant issues arising from the AGS, and the action plan recognises the strategic and operational planning processes are in the process of being updated to meet future ambitions of the transformed organisation.

Full Council sets the Budget and Policy framework for the Council and agrees the Strategic and Annual Plans. Council delegates the day to day running of council services to the Executive and Senior Leadership Team, with Scrutiny and Audit Committees in place to hold the Executive and Officers to account on key decisions, and monitor the management of controls and risks. The Council operated a Transformation Board during 2018/19 which is responsible for the key decisions in delivering the Transformation Programme. This programme is one of the key drivers for change in delivering quality, customer focussed and financially sustainable services in future. In addition, there are governance arrangements that provide the framework for decision making for the delivery of the Commercial Strategy and strategic Regeneration Programmes.

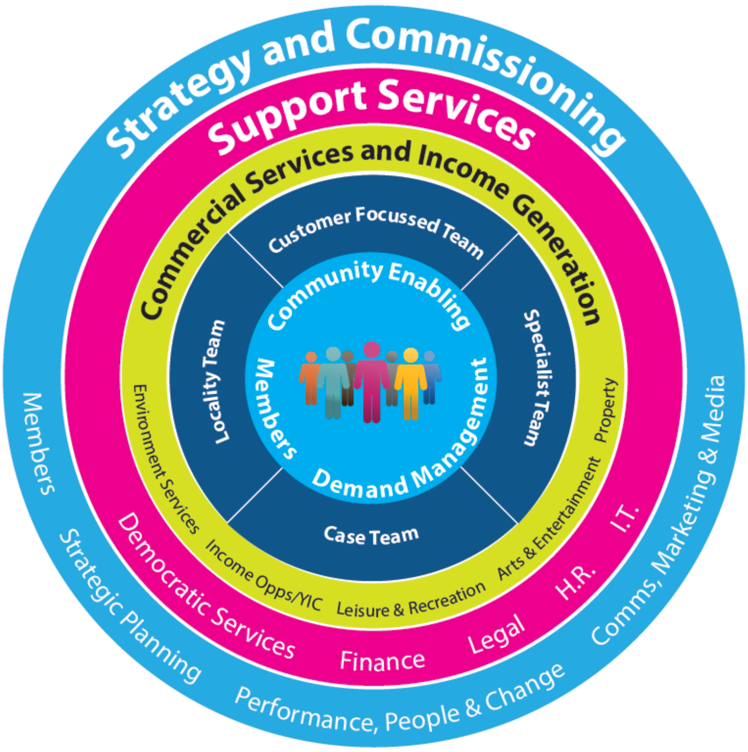
Operating Model

The Council has made significant progress in delivering an ambitious plan to totally redesign its service delivery to ensure an improved experience for the customers and the communities it serves whilst at the same time reducing the cost to the tax payer. This will be achieved through a radical change in the way our services are designed, the way service teams are structured to support service delivery and by making more use of digital technology including Electronic Document Management (EDM), workflow and web based technologies. Rather than cutting services, this is an investment based approach that will realise genuine efficiencies, whilst also realising improvements in levels of services for customers and modernising service delivery.

Implementation of the agreed business case will deliver:

- Ongoing annual savings of £2.48m from an investment of up to £7.45m – the savings are fully built into the base budget from April 2019
- A 'fit for purpose' organisation that will be in a position not only to drive continuous improvement but also to generate additional income to fund and support the Council's future priorities.

We have redesigned our operating model to ensure the way we are organised and how we deliver services is fit for purpose, the figure below provides a high level picture of how we will operate in future. The new staffing structure has been implemented in phases and completed in March 2019.



Resources

The Council approved its Revenue and Capital Budgets for 2018/19 in February 2018.

2018/19 Band D Council Tax £162.48

Increase of 3.18%

Spending on Services

£16.5m

Funded By

Council Tax £9.7m
Business Rates £3.5m
Government Grants £0.4m
New Homes Bonus £2.0m
Reserves £0.9m

Budget allocations can be updated during the year where Council and Executive agree changes to original budgets. The final Net Budget at the end of the financial year was £16.6m.

The Capital Programme budget approved in February 2018 totalled £11.7m, profiled across 2018/19 and 2019/20. In addition, the Council has supported in principle a further £45.7m in reserve schemes over the same period of which up to £42.6m is for the investment in land, property and renewable energy schemes in support of the income generation priority.

Capital Programme

£57.4m

Funded By

Grants and Contributions £3.3m
Capital Receipts and Borrowing £54.1m

Performance

Revenue Budget

The net expenditure for the year 2018/19 was £16.3m, resulting in an underspend of £260k (1.6%). The underspend has supported carry forward of spending commitments into 2019/20, with the remainder being transferred to general reserves. The following table summarises performance against the final budget for the year.

	Final Budget £'000	**Net Spend / Funding £'000**	**Difference £'000**
Net Expenditure on Services:			
Chief Executive	666	715	49
Strategy and Support Services	6,699	6,163	(536)
Service Delivery	1,542	1,825	283
Communities	1,027	986	(41)
Commercial Services and Income Generation	6,673	6,658	(15)
Net Budget	**16,607**	**16,347**	**(260)**
Funded By:			
Council Tax	(9,699)	(9,699)	0
Business Rates	(3,522)	(5,251)	(1,729)
General Government Grants	(400)	(400)	0
New Homes Bonus	(2,007)	(2,007)	0
Earmarked Reserves	(979)	1,010	1,989
Net Funding (Difference to General Reserves)	**(16,607)**	**(16,347)**	**260**

The significant differences relate to:

- Increased net income from investments £585,000
- Increased income from housing benefit subsidy and debt recovery £211,000
- Net additional income from new commercial investment properties £81,000
- Higher than estimated planning fees however increased development control costs resulted in net overspend £98,000
- Increased costs on building control and underachievement of income target shortfall £190,000
- Car parking net budget shortfall £149,000
- Net increased income on waste collection income mainly due to garden waste collection £85,000
- Sports facility net increased income £75,000

The Comprehensive Income and Expenditure Statement gives detailed information about the total expenditure on the services we provide. It also shows the council tax, business rates and government grants we received to help pay for those services. The following information reconciles total expenditure and total income reported for the year.

Where the Money Goes	**£'000**	**Where the Money Comes From**	**£'000**
Employees	19,491	Council tax payers – SSDC Services	9,664
Premises	3,157	Council tax payers – town and parish council precepts	5,228
Transport	809	Business Rates	7,326
Supplies and Services	7,341	Central Government Support	4,624
Third party payments	6,737	Government Subsidy	33,235
Benefit claimants	31,762	Other grants and contributions	167
Capital and financing charges	10,146	Sales, fees and charges	15,019
Town and parish precepts and Council Tax Support Grant	5,263	Investment income	1,427
		Share of right to buy receipts and other easements	1,670
Total Spend	84,706	Total Income	78,360
		Deficit for the Year	6,346

Although the table shows a reported deficit for the year within the Comprehensive Income and Expenditure Statement, after taking into account appropriate technical accounting adjustments in the movement of reserves statement the overall position reflects the underspend shown above, with an increase in general balances of £246,523.

Capital Budget

Our Capital account shows the income and expenditure transactions we make when we:

- Buy or sell land or property including investment properties
- Build new property
- Carry out major repairs or improvements to our properties
- Provide grants for the above type of activity

Our final capital budget for the year totalled £33.652m, with a further £52.500m committed in the approved capital programme in subsequent years. Total spend in the year amounted to £28.414m, which included:

- £22.103m on the acquisition of investment properties.
- £1.685m on economic development schemes
- £1.482m on efficiency measures for delivery of future services
- £0.861m on disabled facilities and home repair grants
- £0.679m on sports and leisure facilities.
- £0.398m on affordable housing and housing improvements.

The following table summarises capital spending for the year and how this has been financed:

Where the Money Goes	£'000	Where the Money Comes From	£'000
Investment Property	22,103	Capital Receipts	4,549
Property, Plant & Equipment	3,373	Capital Fund	186
Affordable Housing & Housing Grants	1,259	Capital Grants from central government	720
Intangible Assets	822	Capital Grants from non-government funding partners	805
Sports & Leisure Facilities	679	Internally borrowed – not from Useable Capital Receipts	22,154
Area Committees	178		
Total Spend	**28,414**	**Total Financing**	**28,414**

Reserves and Balances

Sound financial management and a strong track record of striking the right balance between spending and the need to maintain a core level of resources to support the revenue account means that our finances are in a healthy state. This is reflected in the level of reserves and working balances we hold.

The General Fund Balance of £4.593m represents accumulated revenue surpluses. It ensures the Council remains financially resilient, and provides a contingency in the event of unavoidable unplanned expenditure. An assessment of our financial risks indicates that we should maintain this balance at or above £3.1m therefore the position as at 31 March 2019 remains above acceptable levels.

The total Earmarked Reserves balance is £17.506m as at 31 March 2019. These reserves are funds set aside to meet future spending commitments and contingencies for specific financial risks. Examples include election costs, leisure centre repairs, grants and leisure development. We also currently hold £5.019m within a Medium Term Financial Plan (MTFP) Support Fund to protect the annual budget from a sharp decline in New Homes Bonus funding (Council has approved the transfer of £2.5m of this reserve to the Regeneration Fund in 2019/20), and £3.955m in Business Rates Volatility Reserve which protects against fluctuations in funding levels. We added £5.01m to earmarked reserves during the course of the year, but also spent £4.34m on specific projects.

We also held £22.798m in our capital receipts reserve, which is accumulated funding from asset sales that can be reinvested in our capital programme priorities.

Achievements

Our priorities are set out in the Council Plan 2016-21, with an Annual Action Plan (AAP) covering the five areas of focus. Our AAP for 2018-19 is summarised as follows:

In order to protect front line services we will:

- Transform customer services through technology
- Provide access to services to suit our customers' needs
- Actively manage assets and resources to ensure the best financial or community return
- Seek business opportunities for the council
- Work with partners to achieve economies, resilient and influence

To promote a strong and growing economy with thriving urban, rural and land based businesses and improving productivity we will:

- Work with businesses and use our assets
- Advise and support initiatives that ensure worker skills meet the employers' needs
- Lobby for and support infrastructure improvements to enable growth
- Capitalise on our high quality culture, leisure and tourism opportunities to bring people into the district

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

- Promote recycling and minimise waste
- Promote the use of 'green' technology
- Maintain and promote access to our Country Parks and open spaces to promote good mental and physical health
- Keep streets and neighbourhoods clean and attractive
- Continue to support long term flood resilience
- Promote a high quality built environment in line with Local Plan policies
- Support communities to develop and implement local, parish & neighbourhood plans

To enable the provision of housing that meets the future and existing needs of residents and employers we will work with partners to:

- Minimise homelessness and rough sleeping
- Work with the private rented sector to improve the standard and availability of rented accommodation
- Tackle fuel poverty
- Work to minimise the impact of personal or household debt
- Enable people to live independently for as long as they are able

To build healthy, self-reliant, active communities we will:

- Support communities so that they can identify their needs and develop local solutions
- Target support to areas of need
- Help people to live well by enabling quality cultural, leisure, play, sport & healthy lifestyle facilities & activities
- Work with partners to tackle health issues such as diabetes and hypertension, and mental health
- Work with partners to keep our communities safe

Over the last year the Council has made good progress in meeting its corporate priorities and delivering quality services to the community. The good progress that has been made in transformation and financial management is also allowing the Council to give greater emphasis to its desired economic and community regeneration activities. It has put in place plans and governance to give added momentum to its desired projects.

Highlights of our achievements in 2018-19 include:

High quality and cost effective services:

- ✓ Our ambitious Transformation Programme has continued to make good progress, saving an annual £2.5m without cutting services and helping to generate £2.2m in extra commercial income by 2021.
- ✓ We are shortlisted for two national awards for achievements in the public sector – for Workforce Transformation and as Best Commercial Council.
- ✓ Enhanced our property portfolio through prudent, ambitious and exciting investments now providing an annual income of £1.3m
- ✓ The Council was praised for decisive action and good progress of Council's Transformation through the Peer Review during 2018 (details available on the Council's website).
- ✓ We have increased our funding share of business rates by £1.138m through participating in the Somerset Business Rates Pool.

Economy:

- ✓ We provided support and advice to food businesses who may be affected by Brexit in particular in relation to export certification.
- ✓ The Public Examination of the A303 Sparkford to Ilchester duelling project opened in December. We are helping to examine and address the impacts on our local highways and heritage, while gaining economic benefits for the district.
- ✓ Our ambitious plan for the regeneration of Yeovil town centre has progressed well. New investment by third parties in Glovers Walk and Old Market Site will stimulate development in the town centre.
- ✓ Created a new ten-year strategy for economic prosperity and growth in South Somerset covering rural and urban economies, transport, communications, skills, workspace, innovation and investment – making South Somerset *a great place to business.*
- ✓ 9000 sq. ft. of new business space opened at the Yeovil Innovation Centre in August, accommodating around 80 new work spaces

Environment:

- ✓ Invested into one of the largest battery energy (25MW) storage sites in the UK
- ✓ £233,000 awarded to the Council by the National Heritage Memorial Fund enabling the purchase of 73 acres of “at risk” heritage land at Ham Hill.
- ✓ Retained Green Flag Awards at Ham Hill, Yeovil Country Parks and Chard Reservoir Local Nature Reserve.
- ✓ Gained grant funding from Heritage Lottery Fund and enhanced nature conservation, restored the Victorian Valley gardens and created seven new trail leaflets and information board, all at Yeovil Country Park.
- ✓ 96% of fly tips were cleared within 5 days of being reported.
- ✓ Awarded a South West in Bloom, five star Best Park Award for Yeovil Country Park and supported Yeovil to win Gold for South West in Bloom for the second Year running

Homes:

- ✓ Awarded 82 grants for essential adaptations helping residents to continue to live independently in their homes
- ✓ 86 Houses in Multiple Occupation (HMOs) were licensed to ensure standards for tenants are maintained in rented accommodation
- ✓ Operated the Severe Weather Emergency Provision for 16 nights, and as a result helped 28 people with emergency accommodation
- ✓ Provided 11-unit temporary accommodation property for homeless families with self-contained bedsits and shared communal facilities, and commenced work to bring an old building back into use for six more units of temporary housing.
- ✓ Commended by the Government housing team for our approach to increasing the availability of temporary accommodation.
- ✓ 122 affordable homes delivered by partnership working with housing associations and new development enabled by investment of £718,000
- ✓ Working with our partner the Centre for a Sustainable Environment we supported 283 households (of

which 53 had reported health conditions) to improve the energy efficiency of their homes, improving quality of life, reducing risk associated with excess cold and with an average financial saving of £119.

Health and communities:

- ✓ Completed 1161 food inspections to help ensure safe places for communities to eat and buy food

- ✓ Investigated 359 noise complaints helping to address causes or factors of poor mental health and wellbeing

- ✓ Carried out 370 rat treatments and provided advice for 412 rat calls to help keep neighbourhoods clean and safe

- ✓ The Octagon Theatre and Westland's Entertainment Venue set a new Box Office Record selling over 152,000 tickets (63% on-line) across both venues, and supported by 2,107 days donated by our magnificent volunteers.

- ✓ Following our ambitious plan to rescue and reinvest in the former social & sports club – the Westland Entertainment Venue is achieving excellent growth in the number of events and guests and we are ahead of Business Plan targets. Room hire for the venue has doubled on the previous year.

- ✓ £167,000 of grants to 47 community led projects, which helped to create investment of over £560,000 into supporting increased local quality of life.

- ✓ Ten Local Information Centres helped with running costs, providing help and information to thousands of visitors

- ✓ Created a First World War commemorative walks guide for Yeovil, funded by the South West Museum Development Fund and launched with a series of locally led events.

- ✓ Entertained 6000 visitors at the National Play Day Event, Yeovil Country Park.

<u>Risks and Opportunities</u>

There are some inherent risks in our financial estimates and assumptions including:

- Inflation – rising inflation could place additional pressure on pay settlements and prices for purchases of goods, services and assets.
- Delivery of savings – we are confident in the delivery of transformation savings and have built these into budget plans. However, if the savings are not delivered in full or are delayed this will create budget pressure.
- Demand volatility – fluctuation in costs and income as a result of changes in demand led services and usage (e.g. homelessness, planning, building control, parking, and garden waste).
- Business Rates Retention – retained business rates forecasts are notoriously difficult to predict with accuracy and can therefore change from year to year. The risk of volatility in business rates income remains with previous outstanding appeals, the potential for new appeals against the 2017 valuation, and contested claims from the local NHS Foundation Trusts for mandatory relief.
- Funding settlement – continued austerity and greater reductions in funding will add further financial pressures.
- New Homes Bonus (NHB) – the amount of funding attracted under new homes bonus for housing delivery has reduced, and Government has indicated it will continue to keep this under review. There is a risk that this will reduce further as government seeks to address other funding pressures such as social care.
- Economic slowdown – impact on business rates and NHB as well as income from fees and charges.
- Building a commercial investment portfolio brings new risks in terms of managing the performance of the portfolio. We are managing risk by building a balanced portfolio and using appropriate resources and expertise to support robust decisions and ongoing management of the portfolio.
- Treasury performance – we have invested more of our cash reserves in strategic financial instruments that we plan to hold for the long term and deliver a higher return. We access professional and

specialist treasury advice to ensure risks are appropriately managed, whilst taking the opportunity to increase our income.

We manage these risks by ensuring our budget estimates and information used for financial decision making are robust and realistic, and by maintaining appropriate reserves and balances.

Financial Strategy

The Council reviewed and updated its Financial Strategy in September 2018. The strategy responds to the ongoing and increasing financial challenges within the local government sector, and builds on previous approaches agreed including the Efficiency Strategy agreed in 2016. The key themes are:

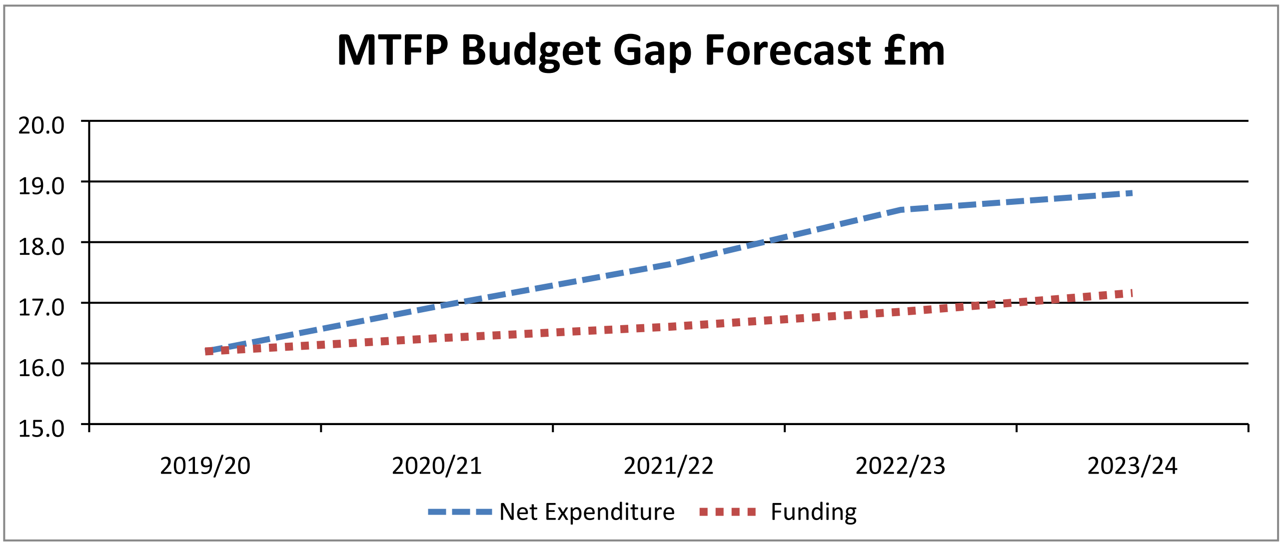
a) **Challenging existing costs** estimates and assumed "unavoidable" cost increases
b) Ensuring **clear service priorities** that demonstrably align with corporate strategy and plans
c) Maximising operational efficiency through **transformation** of services and ways of working
d) Taking a more **commercial approach** and increasing income yield by 5% per year
e) Increasing the **income yield from financial investments** as part of a prudent treasury management approach
f) **Investing in property, energy and new services to generate additional income** that can be reinvested to maintain and improve services to our community
g) Reduce reliance on **government grants** for the funding of ongoing services.

The strategy seeks to deliver ongoing annual savings of up to £6m by 2022/23. The £6m target takes into account the budget gap identified in financial projections within the Medium Term Financial Plan together with an allowance for risk of further spending pressures in future. The target includes:

- £2.50m transformation programme
- £2.25m income generation largely through commercial investment property schemes
- £0.75m treasury cash investment income
- £0.30m service sales, fees and charges income
- £0.20m further service cost efficiency

Outlook

By the time the Council set its 2019/20 budget in February 2019, £4m of savings have been built into the Medium Term Financial Plan and with a balanced budget projected for 2019/20. The updated budget estimates including these savings and other changes has led to the forecast budget gap in 2022/23 reducing to £1.68m. Delivering the remaining savings target of £2m (£6m less £4m already delivered) should provide a healthy, sustainable financial positon for the foreseeable future including resilience to new pressures and opportunities for further investment in local priorities.



Following the District elections in May 2019, the new Council is expected to review its priorities and develop a new Council Plan for 2020 to 2024. New and updated priorities will need to assessed and financial plans updated accordingly, ensuring the Council's ambitions are both affordable and maintain financial resilience.

Like all local authorities, the Council faces the ongoing challenge of delivering local services and priorities with reducing resources.

The local government funding regime continues to be reviewed by Government and the sector, with future grant funding and arrangements for local retention of business rates likely to change in future. The Council accepted a four-year funding settlement from Government for the period 2016/17 to 2019/20, which provided certainty of the pace of funding reduction for a number of grants.

We are currently facing a high degree of uncertainty with regard to future funding from 2020/21 onwards. There are several significant changes expected, the outcome of which is impossible to predict at this stage, including:

- The Spending Review 2019 – which will determine the total funding available to Local Government
- The Fair Funding Review – which will determine each authority's share of the total funding available
- Business Rates Baseline Reset – which will determine how much historic growth in business rates funding can be retained by the Council
- Business Rates Retention move from 50% to 75% – with authority shares and any transfer of responsibilities from Central Government to be determined
- New Homes Bonus reform – Government is due to consult on scheme changes during 2019 which is expected to determine future grant allocations
- Impact of Brexit on local government, the economy and local communities

The Medium Term Financial Plan will need to be updated when further information becomes available.

The Transformation programme has delivered major change in how the Council delivers services, with structural changes fully implemented by March 2019. The programme of technology and business process improvement will continue during 2019/20, and this is important to ensure the planned benefits are realised and service delivery remains resilient. It is inevitable that such a major change programme increases operational risks, and this is recognised in our approach to maintaining reserves.

Within our financial strategy, we aim to reduce our reliance on new homes bonus funding and reserves for the delivery of day to day services. In 2019/20 we have used £2.1m (which is £0.9m less than in 2018/19) and the plan is to reduce this to £1m per year by 2023/24.

The Commercial Strategy is another key component of the Financial Strategy. The Strategy helps to deliver the Council's vision of creating more income generation opportunities, using our resources to make investments that provide a better return so we can inject more money into the services we deliver for our communities. Our strategy is to protect and improve core services, deliver public priorities and act in the best long-term interests of the District. The Council has committed a significant investment fund for this purpose, which will be financed through a combination of reserves and borrowing. The Council has previously been debt-free for many years, but we will need to borrow in order to acquire investment properties that will meet our core objectives and service priorities.

The commercial strategy and treasury strategy are interlinked, and we have continued to work with our treasury advisors to review our cash investments with the aim of increasing investment income. Again this is designed to deliver increased income to protect services whilst ensuring risks are effectively managed.

The Council joined the new Somerset Business Rates Pool in April 2018, comprising the County Council and five district councils in Somerset, including SSDC. This has delivered significant financial gains in its first year. The Pool has also been successful in becoming a one-year Pilot scheme for 75% Business Rates Retention during 2019/20. This is forecast to bring greater financial benefit with SSDC forecasting a gain of £1.4m. This is built into the 2019/20 as a one-off and with the additional income allocated to the Regeneration Fund.

In May 2018 Somerset County Council indicated its wish to start discussions with district councils regarding options for delivering local government services through unitary council arrangements, in the face of its ongoing financial challenges. An external partnership was engaged to provide a high-level assessment of potential options for the future of local government in Somerset. It is anticipated that discussions will continue during 2019.

Explanation of Accounting Statements and Basis of Preparation

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

The Statement of Accounts has been prepared on a going concern basis. The Council's S151 Officer has completed a detailed assessment of a range of factors to determine the financial health of the organisation and assess key risks to the affordability of service provision for the foreseeable future. The conclusion following this assessment is that the Council continues to operate as a going concern.
The main statements are:

- The **Comprehensive Income and Expenditure Statement** – this records all of the Council's income and expenditure for the year. The top half of the statement provides an analysis by service area in line with the Council's operating model. The bottom half of the statement deals with corporate transactions and funding. Expenditure represents a combination of:
    - services and activities that the Council is required to carry out by law (statutory duties) such as street cleaning, planning and registration
    - discretionary expenditure focussed on local priorities and needs
- The **Movement in Reserves Statement** is a summary of the changes to the Council's reserves over the course of the year. Reserves are divided into "useable", which can be invested in capital projects or service delivery and improvements, and "unusable" which must be set aside for specific purposes.
- The **Balance Sheet** is a "snapshot" of the Council's assets, liabilities, cash balances and reserves at the year-end date.
- The **Cash Flow Statement** shows the reason for changes in the Council's cash balances during the year, and whether that change is due to operating activities, new investment, or financing activities (such as borrowing and other long term liabilities).

There is also a supplementary statement:

- The **Collection Fund**, which summarises the collection and distribution of council tax and business rates to the police, fire service, county council, town and parish councils, central government as well as for ourselves.

The Notes to these financial statements provide more detail about the Council's accounting policies and individual transactions.

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of South Somerset District Council (the 'Authority') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Account and notes to the financial statements, including the accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the S151 Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the S151 Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The S151 Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts 2018-2019, the Narrative Report, the Glossary of Terms, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts 2018-2019, the Narrative Report and the Glossary of Terms for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the S151 Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 18, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the S151 Officer. The S151 Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the S151 Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the S151 Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements – Certificate

We certify that we have completed the audit of the financial statements of South Somerset District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Barrie Morris, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor
Bristol

17th July 2019

Statement of Responsibilities for the Statement of Accounts

The Authority's Responsibilities

The Council is required to: -

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

S151 Officer Responsibilities

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

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

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

The S151 officer has also:

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

Certification of the Accounts

This Statement of Accounts presents a true and fair view of the financial position of South Somerset District Council at the 31 March 2019 and its income and expenditure for the year ended 31 March 2019.

The Draft Statement of Accounts is unaudited and the Statement of Accounts as published may be subject to change. The audited Statement of Accounts will be presented to be approved by resolution of the Audit Committee in July 2019 under powers allocated by the constitutional arrangements of the Council, and signed by the Chair of Audit Committee.

Signed

P Fitzgerald ACMA, CGMA
S151 Officer

25th July 2019

Statement of Accounting Policies

1. General Principles

The Statement of Accounts summarises the authority's transactions for the 2018/19 financial year and its position at the year-end of 31 March 2019. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those regulations require to be prepared in accordance with proper accounting practices. These practices under Section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

2. Accruals of Income and Expenditure

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

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract. With effect from 1st April 2018, IFRS15 *Revenue from Contracts with Customers* has been adopted, which resulted in no material impact to the Council's recognition of revenues.

- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.

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

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

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

3. Cash and Cash Equivalents

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

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

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

4. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

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

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

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

5. Charges to Revenue for Non-Current Assets

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

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

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

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

6. Council Tax and Non Domestic Rates

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

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

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

7. Employee Benefits

Benefits Payable During Employment
Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward

into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

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

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

Post-Employment Benefits

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

The Local Government Pension Scheme

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

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

- Liabilities are discounted to their value at current prices, using a discount rate on the yield at the 19 year point on the Merrill Lynch AA rated corporate bond curve.

- The assets of the Somerset County Council Pension Fund attributable to the Authority are included in the Balance Sheet at their fair value:
  - quoted securities - current bid price.
  - unquoted securities – professional estimate
  - unitised securities – current bid price
  - property – market value

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

- Service cost comprising:
  - Current service cost – the increase in liabilities as a result of years of service earned this year is allocated to the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
  - Past service costs – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years is debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.
  - Net interest on the net defined benefit liability (asset), i.e. net interest expense for the authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

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

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

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

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

8. Events after the Reporting Period

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

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

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

9. Financial Instruments

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

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

- short-term loans from other local authorities,
- long-term loans from the Public Works Loan Board and commercial lenders
- lease payables
- trade payables for goods and services received.

Financial Assets
A financial asset is a right to future economic benefits controlled by the Council that is represented by cash, equity instruments or a contractual right to receive cash or other financial assets or a right to exchange financial assets and liabilities with another entity that is potentially favourable to the Council. The financial assets held by the Council during the year are accounted for under the following classifications:

- Amortised cost (where cash flows are solely payments of principal and interest and the Council's business model is to collect those cash flow) comprising:
    - cash in hand,
    - bank current and deposit accounts,
    - fixed term deposits with banks and building societies,
    - loans to other local authorities,
    - certificates of deposit
    - treasury bills and gilts issued by the UK Government,
    - bonds issued by multilateral development banks and large companies,
    - loans made for service purposes,
    - lease receivables, and
    - trade receivables for goods and services provided.

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

Financial assets held at amortised cost are shown net of a loss allowance reflecting the statistical likelihood that the borrower or debtor will be unable to meet their contractual commitments to the Council.

Expected Credit Loss Model
The authority recognises expected credit losses on all of its financial assets held at amortised cost (or where relevant fair value through other comprehensive income), either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the authority.

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

The authority has a number of loans. It does not have reasonable and supportable information that is available without undue cost or effort to support the measurement of lifetime expected losses on an individual instrument basis.

The authority has grouped the loans into three groups for assessing loss allowances:

- Group 1 – these loans were made under a government programme, where the supply of funds was conditional on the authority putting in place a system for measuring and monitoring the risk of default for each of the businesses that was provided with a loan. Loss allowances for these loans can be assessed on an individual basis.
- Group 2 – these loans were made at a variable rate of interest. The authority is advised that interest rates are probably going to rise by 1%. Historical information evidences that a 1% increase in interest

rates causes a significant increase in credit risk for 30% of the variable rate loans. The authority therefore uses a 'top-down' approach to assess an overall proportion of a group of relatively homogenous loans to determine that 30% of Group 2 loans have had a significant increase in credit risk since initial recognition.

- Group 3 – for the residual group of loans, the authority relies on past due information and calculated losses based on lifetime credit losses for all loans more than 30 days past due.

Fair Value Measurement
Financial instruments, except those classified at amortised cost, are carried in the Balance Sheet at fair value. For most assets, including bonds, treasury bills and shares in money market funds and other pooled funds, the fair value is taken from the market price. The fair values of other instruments have been estimated by calculating the net present value of the remaining contractual cash flows at 31st March 2019.

Financial instruments classified at amortised cost are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31st March 2019, using the following methods and assumptions:

- Loans borrowed by the Council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31st March.
- The fair values of finance lease assets and liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA-rated corporate bond yield.
- No early repayment or impairment is recognised for any financial instrument.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount given the low and stable interest rate environment.

Fair values are shown in the table below, split by their level in the fair value hierarchy:

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices
- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments
- Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness

10. Government Grants and Contributions

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

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

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

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

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

Community Infrastructure Levy
The authority has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments for the authority) with appropriate planning consent. The Council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects (these include transport, flood defences and schools) to support the development in the area.

CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure. However, a proportion of the charges for this authority may be used to fund revenue expenditure.

11. Heritage Assets

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

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

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

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

12. Intangible Assets

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

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the authority will be able to generate future economic benefits or deliver service potential by being able to use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

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

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

13. Inventories and Long Term Contracts

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

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

14. Investment Properties

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

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

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

15. Joint Operations

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

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

16. 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 building elements are considered separately for classification.

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

The Authority as Lessee

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

Lease payments are apportioned between:

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

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

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

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

The Authority as Lessor

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

Lease rentals are apportioned between:

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

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

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

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

17. Overheads and Support Services

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

18. Property, Plant and Equipment

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

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

- The expenditure incurred is below £10,000, except Capital Grants where the limit is £1,000. In such cases expenditure is charged direct to the revenue accounts.
- The asset is acquired through an operating lease when rental payments are charged to the revenue account.

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

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

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

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

Assets included in the balance sheet at current value are re-valued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Surplus or Deficit on the Provision of Services where they arise from the reversal of a loss previously charged to a service.

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

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

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

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

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

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

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

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

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

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

Depreciation is calculated on the following bases:

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

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

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

Cremators 10

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

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

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

Disposals and Non-Current Assets Held for Sale

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

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

Assets that are to be abandoned or scrapped are not reclassified as assets held for sale.

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

Amounts in excess of £10,000 received from disposals are categorised as capital receipts and credited to the Capital Receipts Reserve, which can then only be used for new capital investment or set aside to reduce the Authority's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement. If the proceeds are £10,000 or less, they are not treated as capital receipts but are instead credited to revenue.

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

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

Component Accounting

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

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

Income and Expenditure Statement).

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

- Land and individual buildings will be valued separately.

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

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

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

19. Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

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

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

Contingent Liabilities

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

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

Contingent Assets

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

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

20. Related Party Transactions

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

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

21. Reserves

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

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

22. Revenue Expenditure Funded from Capital Under Statute

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

23. VAT

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

Comprehensive Income and Expenditure Statement

(Brackets represent income)

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

Gross Expenditure year ended 31 March 2018 £'000	Gross Income year ended 31 March 2018 £'000	Net Cost of Services year ended 31 March 2018 £'000	Service	Note Number	Gross Expenditure year ended 31 March 2019 £'000	Gross Income year ended 31 March 2019 £'000	Net Cost of Services year ended 31 March 2019 £'000
2,711	74	2,785	Chief Executive		4,057	(22)	4,035
47,740	(40,726)	7,014	Director of Strategy and Support Services		43,183	(34,938)	8,245
6,001	(2,870)	3,131	Director of Service Delivery		4,122	(1,873)	2,249
1,573	(167)	1,406	Communities		1,343	(110)	1,233
18,837	(9,044)	9,793	Director of Commercial Services and Income Generation		21,033	(11,438)	9,595
76,862	**(52,733)**	**24,129**	**Cost of Services**		**73,738**	**(48,381)**	**25,357**
5,119	(1,432)	3,687	Other Operating expenditure	10	5,248	(1,670)	3,578
	(25)	(25)	Net Loss/(Gain) on Disposal of Property, Plant and Equipment	12		(40)	(40)
3,111	(608)	2,503	Financing and Investment Income and Expenditure	13	5,720	(1,427)	4,293
	(26,624)	(26,624)	Taxation and Non-Specific Grant Income	14		(26,842)	(26,842)
85,092	**(81,422)**	**3,670**	**(Surplus)/Deficit on Provision of Services**		**84,706**	**(78,360)**	**6,346**
		(527)	(Surplus)/Deficit on revaluation of Property, Plant and Equipment	33			(1,007)
		(131)	(Surplus)/Deficit on revaluation of Available for Sale Financial Assets	33			0
		0	(Surplus)/Deficit on revaluation of Pooled Funds	33			106
		(9,204)	Remeasurement of the Net Defined Benefit Liability	47			(8,005)
		(159)	Share of Other Income and Expenditure of Joint Operations	21			270
		(10,021)	**Other Comprehensive Income and Expenditure**				**(8,636)**
		(6,351)	**Total Comprehensive Income and Expenditure**				**(2,290)**

Movement in Reserves Statement

Reserves represent the council's net worth and shows its spending power. This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable' reserves. The Surplus or Deficit on the Provision of Services line shows the true economic cost of providing the council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

	General Fund Balance	Earmarked Reserves	**Total General Fund Balance**	Capital Receipts Reserve	Capital Grants Unapplied	Joint Operations Reserves	**Total Usable Reserves**	Unusable Reserves	**Total Authority Reserves**
	£'000	£'000	**£'000**	£'000	£'000	£'000	**£'000**	£'000	**£'000**
Balance at 31 March 2017	**(5,077)**	**(14,778)**	**(19,855)**	**(29,860)**	**(469)**	**(608)**	**(50,792)**	**31,527**	**(19,265)**
Movement in reserves during 2017/18									
Total Comprehensive Income and Expenditure	3,668	0	**3,668**	0	0	(159)	**3,509**	(9,861)	**(6,352)**
Adjustments between accounting basis and funding basis under regulations (note 9)	(6,350)	0	**(6,350)**	4,592	(569)	0	**(2,327)**	2,327	**0**
Net Increase/Decrease before transfers to Earmarked Reserves	**(2,682)**	**0**	**(2,682)**	**4,592**	**(569)**	**(159)**	**1,182**	**(7,534)**	**(6,352)**
Transfers (to)/from Earmarked Reserves (note 32)	3,399	(3,399)	**0**	0	0	0	**0**	0	**0**
(Increase)/Decrease in 2017/18	**717**	**(3,399)**	**(2,682)**	**4,592**	**(569)**	**(159)**	**1,182**	**(7,534)**	**(6,352)**
Balance at 31 March 2018	**(4,361)**	**(18,176)**	**(22,537)**	**(25,268)**	**(1,038)**	**(767)**	**(49,610)**	**23,993**	**(25,617)**
Reclassification of Financial Instruments	14		14	0	0	0	14	(11)	3
Adjusted Balance at 31 March 2018	**(4,347)**	**(18,176)**	**(22,523)**	**(25,268)**	**(1,038)**	**(767)**	**(49,596)**	**23,982**	**(25,614)**
Movement in reserves during 2018/19									
Total Comprehensive Income and Expenditure	6,346	0	**6,346**	0	0	270	**6,616**	(8,906)	**(2,290)**
Adjustments between accounting basis and funding basis under regulations (note 9)	(5,923)	0	**(5,923)**	2,470	(656)	0	**(4,109)**	4,109	**0**
Net Increase/Decrease before transfers to Earmarked Reserves	**423**	**0**	**423**	**2,470**	**(656)**	**270**	**2,507**	**(4,797)**	**(2,290)**
Transfers to/from Earmarked Reserves (note 32)	(670)	670	**0**	0	0	0	**0**	0	**0**
(Increase)/Decrease in 2018/19	**(247)**	**670**	**423**	**2,470**	**(656)**	**270**	**2,507**	**(4,797)**	**(2,290)**
Balance at 31 March 2019	**(4,594)**	**(17,506)**	**(22,100)**	**(22,798)**	**(1,694)**	**(497)**	**(47,089)**	**19,185**	**(27,904)**

Balance Sheet (Brackets represent liabilities)

The Balance Sheet is a ‘snapshot’ of the council’s financial position at a specific point in time, showing what it owns and owes at 31st March. The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves is ‘Usable Reserves’ i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences in the Movement in Reserve Statement line ‘adjustments between accounting basis and funding basis under regulations’.

As at 31 March 2018		**Note No.**	**As at 31 March 2019**	
£’000			**£’000**	**£’000**
53,325	Property, Plant & Equipment	15	53,746	
17,633	Investment Properties	17	26,109	
839	Intangible Assets	20	1,273	
767	Investment in Joint Operations	21	497	
1,763	Heritage Assets	22	1,789	
7,164	Long Term Investments	34	3,129	
1,278	Long Term Debtors	23	11,078	
82,769	**TOTAL LONG TERM ASSETS**			**97,621**
25,650	Short Term Investments	34	27,687	
2,488	Inventories	24	3,817	
7,178	Short Term Debtors	25	9,507	
2,242	Cash & Cash Equivalents	26	493	
37,558	**CURRENT ASSETS**			**41,504**
0	Short term Borrowing	27	(19,500)	
(949)	Bank Overdraft	26	(702)	
(7,299)	Short term Creditors	28	(9,108)	
(8,248)	**CURRENT LIABILITIES**			**(29,310)**
(1,349)	Provisions	30	(1,401)	
(3,799)	Developers Contributions Deferred	31	(3,679)	
(95)	Long Term Liabilities – Creditors	29/34	(185)	
(81)	Long Term Liabilities – Finance Lease	45/34	(51)	
(81,138)	Liability related to defined benefit pension scheme	47	(76,596)	
(86,462)	**LONG TERM LIABILITIES**			**(81,912)**
25,617	**NET ASSETS**			**27,903**
48,843	Usable Reserves	32	46,591	
767	Usable Reserve – Share in Joint Operations	32/21	497	
(23,993)	Unusable Reserves	33	(19,185)	
25,617	**TOTAL RESERVES**			**27,903**

I confirm these accounts were approved by the Audit Committee at the meeting held on 25th July 2019.

Signed: Date:

Cllr Martin Carnell, Chair of Audit Committee

These financial statements replace the unaudited financial statements certified by the S151 Officer on 30th May 2019.

Signed: Date:

P Fitzgerald ACMA, CGMA, S151 Officer

Cash Flow Statement (Brackets on this page represent income)

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

Year Ended 31 March 2018 £'000		Year Ended 31 March 2019 £'000
(3,669)	Net surplus/(deficit) on the provision of services	(6,346)
(1,108)	Adjustments to net surplus or deficit on the provision of services for non-cash movements (note 35)	7,095
(1,744)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (note 35)	(2,132)
(6,521)	**Net cash flows from operating activities**	(1,383)
7,393	Investing Activities (note 36)	(19,589)
(52)	Financing Activities (note 37)	19,470
820	**Net increase or decrease in cash and cash equivalents**	(1,502)
473	Cash and Cash Equivalents (including bank overdraft) at 1 April (note 26)	1,293
1,293	**Cash and Cash Equivalents (including bank overdraft) at 31 March (note 26)**	(209)

Notes to the Core Financial Statements

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

1. **Prior Period Restatements**

Restatement of Comprehensive Income and Expenditure Statement:

Expenditure on services and income relating to or derived from those services is classified in the Comprehensive Income and Expenditure Statement in accordance with the CIPFA Code of Local Authority Accounting in the UK on the basis of its reportable segments. These reportable segments are based on the council's internal management and reporting structure which changed during 2018/19. The comparative figures for 2017/18 have been restated onto the new structure. This note shows how the net expenditure and income has been restated.

These changes will also have an effect on the Expenditure and Funding Analysis and other sections of the accounts.

Old Reporting Classification	As reported in the CIES 2017/18 £'000	Adjustments between old and new internal reporting classification £'000	As Restated 2017/18 £'000	New Reporting Classification
Cost of Services				
Gross Expenditure				
Chief Executive	2,887	176	2,711	Chief Executive
Director of Support Services	45,215	(2,525)	47,740	Director of Strategy and Support Services
Director of Service Delivery	7,144	1,143	6,001	Director of Service Delivery
Communities	1,545	(28)	1,573	Communities
Director of Commercial Services and Income Generation	19,715	878	18,837	Director of Commercial Services and Income Generation
	76,506	**(356)**	**76,862**	
Gross Income				
Chief Executive	(1)	(75)	74	Chief Executive
Director of Support Services	(39,672)	1,054	(40,726)	Director of Strategy and Support Services
Director of Service Delivery	(3,056)	(186)	(2,870)	Director of Service Delivery
Communities	(153)	14	(167)	Communities
Director of Commercial Services and Income Generation	(9,695)	(651)	(9,044)	Director of Commercial Services and Income Generation
	(52,577)	**156**	**(52,733)**	
Net Cost of Services				
Chief Executive	2,886	101	2,785	Chief Executive
Director of Support Services	5,543	(1,471)	7,014	Director of Strategy and Support Services
Director of Service Delivery	4,088	957	3,131	Director of Service Delivery
Communities	1,392	(14)	1,406	Communities
Director of Commercial Services and Income Generation	10,020	227	9,793	Director of Commercial Services and Income Generation
	23,929	**(200)**	**24,129**	

Financing and Investment Income and Expenditure				
Gross Expenditure	3,311	200	3,111	Trading Undertakings reclassified to Cost of Services
Gross Income	(608)	0	(608)	
Net Financing and Investment Income and Expenditure	**2,703**	**200**	**2,503**	

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

The Council has yet to adopt several accounting standards which will be introduced in the 2019/20 Code. At the time of writing, the impact on our accounts is not fully known although based on our current arrangements it is likely to be immaterial.

3. Critical Judgements in applying accounting policies

In applying the accounting policies, 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:

- Whether a lease is an operating or a finance lease
  The Council will account for leases as finance leases where substantially all the risks and rewards are incidental to ownership of the leased asset life with the Council. The asset is recorded as Property, Plant and Equipment and a corresponding liability is recorded. The finance leases recorded in the Statement of Accounts are due to the fact that:
  - The lease term is for the major part of the economic life of the asset
  - The present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset.

- Whether land and buildings owned by the Council are investment properties
  Since investment properties are properties held solely to earn rentals or for capital appreciation or both, properties that earn rentals as an outcome of a regeneration project will be accounted for as Property, Plant and Equipment rather than investment property. Social Housing is delivering a service and will also be accounted for as Property, Plant and Equipment.

- Whether short-term investments are cash equivalents
  Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. The Council will include deposits in Money Market Funds and Business Reserves as Cash Equivalents.

- Whether to componentise non-current assets
  As components of non-current assets do not always have the same useful lives and may depreciate or wear out at different rates throughout their life it is appropriate to depreciate each significant component separately over its useful life. Components will be recognised when a significant asset (i.e. assets where the cost or value is at least £500,000) is enhanced, acquired or re-valued.

- Whether to recategorise non-current assets to Heritage Assets
  Assets had to be assessed to ascertain whether they fell into the criteria for Heritage Assets. Assets are deemed Heritage Assets if they are held for historical, artistic, scientific, technological, geophysical or environmental quality that are held and maintained principally for its contribution to knowledge and culture.

- Whether insurance valuations are used rather than professional valuations for Heritage Assets
  Insurance valuations are considered appropriate for Heritage Assets, these are provided annually in June by the Heritage Team based on their knowledge and research of the current auction price. The potential costs of professional valuations are of no benefit since such assets will never be sold, and only used if lost, stolen or broken.
- Whether Lufton 2000 and SSDC Opium Power Limited are joint ventures or joint operations

Both Lufton 2000 and SSDC Opium Power Limited are joint operations since in both cases there is joint control of decisions about the relevant activities of the arrangement. The Council has the rights to a share of net assets and rights and obligations in relation to the assets and liabilities. Therefore, there is not a requirement to produce group accounts.

- Whether Property, Plant and Equipment requires valuation every year
  Property, Plant and Equipment is valued on a 5 year rolling programme due to the asset base being too large and costly to revalue every year. Assets that benefit from large expenditure during the financial year are revalued outside of the 5 year rolling programme. The Council seeks advice for the District Valuer as to his professional opinion on the changing values of assets and whether these are material.

- Whether to make provisions for Appeals on Business Rates
  The Council has calculated an estimate of expenditure required to settle the present obligation based on appeals submitted by ratepayers. The estimate is based on probabilities and historical experience.

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

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

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

Item	Uncertainties	Effect if actual results differ from assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings, infrastructure and Vehicles, Plant and Equipment would increase by £467k if the estimated useful lives were reduced by one year.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the authority with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £383k.
Business Rates Appeals	The Authority has recognised a provision for outstanding Business Rates appeals of £1.313m. This provision is calculated using information provided by the Valuation Office and using experience of previous success rates.	If Business Rates appeals success rates were underestimated by 10%, the liability would increase by £131k.

Item	Uncertainties	Effect if actual results differ from assumptions
Arrears	At 31 March 2019, the Authority had a balance for sundry debtors of £2.590m. A review of significant balances suggested that an impairment of doubtful debts of £829k was appropriate. However, in the current climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £829k to set be set aside as an allowance.

5. Material items of income and expenditure

There were no material items of income and expenditure during 2018/19.

6. Events after the balance sheet date

The Statement of Accounts was authorised for issue by the S151 Officer on 25th July 2019. Events taking place after this date are not reflected in the financial statements or notes.

7. Expenditure & Funding Analysis

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

2017/18				2018/19		
Net Expenditure Chargeable to the General Fund	**Adjustments between the Funding and Accounting Basis**	**Net Expenditure in the Comprehensive Income & Expenditure Statement**	**Service**	**Net Expenditure Chargeable to the General Fund**	**Adjustments between the Funding and Accounting Basis**	**Net Expenditure in the Comprehensive Income & Expenditure Statement**
£'000	**£'000**	**£'000**		**£'000**	**£'000**	**£'000**
1,881	904	2,785	Chief Executive	715	3,320	4,035
5,250	1,764	7,014	Director of Strategy and Support Services	6,163	2,082	8,245
1,285	1,846	3,131	Director of Service Delivery	1,825	425	2,250
1,173	233	1,406	Communities	986	246	1,232
7,732	2,060	9,792	Director of Commercial Services and Income Generation	6,658	2,937	9,595
17,321	**6,807**	**24,128**	**Net Cost of Services**	**16,347**	**9,010**	**25,357**
(20,003)	**(455)**	**(20,458)**	Other Income and Expenditure	**(15,924)**	**(3,087)**	**(19,011)**
(2,682)	**6,352**	**3,670**	**Surplus or Deficit**	**423**	**5,923**	**6,346**
19,857			Opening General Fund Balance	**22,523**		
0			Less deficit on General Fund	**(423)**		
2,682			Add Surplus on General Fund	**0**		
22,539			**Closing General Fund Balance at 31 March 2019**	**22,100**		

Notes to the expenditure and funding analysis

Adjustments between Funding and Accounting Basis 2018/19				
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	**Adjustments for Capital Purposes (Note 1)**	**Net change for the Pensions Adjustments (Note 2)**	**Other Differences (Note 3)**	**Total Adjustments**
	£'000	**£'000**	**£'000**	**£'000**
Chief Executive	897	28	2,395	**3,320**
Director of Strategy and Support Services	727	156	1,198	**2,081**
Director of Service Delivery	2,851	96	(2,521)	**425**
Communities	225	18	3	**246**
Director of Commercial Services and Income Generation	3,316	124	(503)	**2937**
Net Cost of Services	**8,016**	**422**	**572**	**9,010**
Other income and expenditure from the Expenditure and Funding Analysis	**(3,623)**	**3,041**	**(2,505)**	**(3,087)**
Difference between General Fund Surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**4,393**	**3,463**	**(1,933)**	**5,923**

Adjustments between Funding and Accounting Basis 2017/18				
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	**Adjustments for Capital Purposes (Note 1)**	**Net change for the Pensions Adjustments (Note 2)**	**Other Differences (Note 3)**	**Total Adjustments**
	£'000	**£'000**	**£'000**	**£'000**
Chief Executive	(1)	79	825	**903**
Director of Strategy and Support Services	764	309	691	**1,764**
Director of Service Delivery	1,727	266	(147)	**1,846**
Communities	128	59	46	**233**
Director of Commercial Services and Income Generation	2,185	261	(386)	**2,060**
Net Cost of Services	**4,803**	**974**	**1,029**	**6,806**
Other income and expenditure from the Expenditure and Funding Analysis	**(4,004)**	**2,897**	**651**	**(456)**
Difference between General Fund Surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**799**	**3,871**	**1,680**	**6,350**

Note 1: Adjustments for Capital Purposes

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

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

Note 2: Net change for the Pensions Adjustments
Net change for the removal of pension contributions and the addition of IAS19 *Employee Benefits* pension related expenditure and income:

- **For services** this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
- For **Financing and investment income and expenditure** – the net interest on the defined benefit liability is charged to the CIES.

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

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

Segmental Income

	2017/18		2018/19	
	Revenues from external customers	**Grants & Contributions**	**Revenues from external customers**	**Grants & Contributions**
	£'000	**£'000**	**£'000**	**£'000**
Chief Executive	1	0	3	18
Director of Strategy and Support Services	884	40,048	896	34,084
Director of Service Delivery	61	1,466	3,409	2,087
Communities	46	107	30	82
Director of Commercial Services and Income Generation	8,836	1,128	10,682	1,481
Total income analysed on a segmental basis	**9,828**	**42,749**	**15,020**	**37,752**

8. Expenditure and Income analysed by nature

	2017/18	2018/19
Expenditure/Income	**£'000**	**£'000**
Expenditure		
Employee benefits expenses	18,823	20,918
Other services expenses	59,234	55,987
Depreciation, amortisation, impairment	1,872	2,287
Interest Payments	42	267
Precepts and levies	5,114	5,246
Payments to housing capital receipts pool	5	1
Loss on the disposal of assets	0	0
Total Expenditure	**85,090**	**84,706**
Income		
Fees, charges and other service income	(54,165)	(50,051)
(Gain) on the disposal of assets	(25)	(40)
Interest and investment income	(608)	(1,427)
Income from council tax and NDR	(19,141)	(22,218)
Government grants and contributions	(7,483)	(4,624)
Total Income	**(81,422)**	**(78,360)**
Surplus or Deficit on the Provision of Services	**3,668**	**6,346**

9. Adjustments between accounting basis and funding basis under regulations

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

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

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

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

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

2018/19	**Movement in Usable Reserves**			
	General Fund Balance	**Capital Receipts Reserves**	**Capital Grants Unapplied**	**Movement in Unusable Reserves**
	£'000	**£'000**	**£'000**	**£'000**
Adjustments involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement				
Charges for depreciation, amortisation and impairment of non-current assets	(2,341)	0	0	**(2,341)**
Revaluation losses on Property, Plant and Equipment	54	0	0	**54**
Capital grants and contributions applied	1,389	0	137	**1,526**
Capital grants and contributions unapplied	793	0	(793)	**0**
Revenue expenditure funded from capital under statute	(2,969)	0	0	**(2,969)**
Movement in market value of Investment Property	(3,341)	0	0	**(3,341)**
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	(286)	0	0	**(286)**
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement				
Statutory provision for the financing of capital investment	221	0	0	**221**
Capital expenditure charged against the capital fund	186	0	0	**186**
Adjustments involving the Capital Receipts Reserve:				
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure	1,903	(1,903)	0	**0**
Use of Capital Receipts Reserve to finance capital expenditure	0	4,600	0	**4,600**
Transfer from the Deferred Capital Receipts reserve to the Capital Receipts Reserve upon receipt of cash	0	(229)	0	**(229)**
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(2)	2	0	**0**

2018/19	Movement in Usable Reserves			
	General Fund Balance	Capital Receipts Reserves	Capital Grants Unapplied	Movement in Unusable Reserves
	£’000	£’000	£’000	£’000
Adjustments involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see note 47)	(7,067)	0	0	**(7,067)**
Employer’s pensions contributions and direct payments to pensioners payable in the year	3,604	0	0	**3,604**
Adjustments involving the Collection Fund Adjustments Account:				
Amount by which council tax income and non-domestic rates credited to the Comprehensive Income and Expenditure Statement is different from council tax income and non-domestic rates calculated for the year in accordance with statutory requirements	1,929	0	0	**1,929**
Adjustment involving the Accumulating Compensated Absences Adjustment Accounts:				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	4	0	0	**4**
TOTAL ADJUSTMENTS	**(5,923)**	**2,470**	**(656)**	**(4,109)**

2017/18 Comparative figures	Movement in Usable Reserves			
	General Fund Balance	Capital Receipts Reserves	Capital Grants Unapplied	Movement in Unusable Reserves
	£’000	£’000	£’000	£’000
Adjustments involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement				
Charges for depreciation, amortisation and impairment of non-current assets	(1,786)	0	0	**(1,786)**
Revaluation losses on Property, Plant and Equipment	(86)	0	0	**(86)**
Capital grants and contributions applied	1,950	0	75	**2,025**
Capital grants and contributions unapplied	644	0	(644)	**0**
Revenue expenditure funded from capital under statute	(2,723)	0	0	**(2,723)**
Movement in market value of Investment Property	(699)	0	0	**(699)**
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	(95)	0	0	**(95)**
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement				
Statutory provision for the financing of capital investment	169	0	0	**169**
Capital expenditure charged against the capital fund	295	0	0	**295**
Adjustments involving the Capital Receipts Reserve:				
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure	1,537	(1,537)	0	**0**
Use of Capital Receipts Reserve to finance capital expenditure	0	6,336	0	**6,336**
Transfer from the Deferred Capital Receipts reserve to the Capital Receipts Reserve upon receipt of cash	0	(212)	0	**(212)**
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(5)	5	0	**0**
Adjustments involving the Financial Instruments Adjustments Accounts:				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(15)	0	0	**(15)**

2017/18 Comparative figures	Movement in Usable Reserves			
	General Fund Balance	Capital Receipts Reserves	Capital Grants Unapplied	Movement in Unusable Reserves
	£'000	£'000	£'000	£'000
Adjustments involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see note 47)	(7,233)	0	0	**(7,233)**
Employer's pensions contributions and direct payments to pensioners payable in the year	3,362	0	0	**3,362**
Adjustments involving the Collection Fund Adjustments Account:				
Amount by which council tax income and non-domestic rates credited to the Comprehensive Income and Expenditure Statement is different from council tax income and non-domestic rates calculated for the year in accordance with statutory requirements	(1,666)	0	0	**(1,666)**
Adjustment involving the Accumulating Compensated Absences Adjustment Accounts:				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	1	0	0	**1**
TOTAL ADJUSTMENTS	**(6,350)**	**4,592**	**(569)**	**(2,327)**

10. Other operating income and expenditure

Previous year 2017/18 £'000		Current year 2018/19 £'000
5,114	Parish council precepts and levies	5,246
5	Payments to the Government housing Capital Receipts Pool	2
5,119	**Total Other Operating Expenditure**	**5,248**
(1,432)	Easements and other Capital Receipts (note 11)	(1,670)
3,687	**Total Other Operating Income and Expenditure**	**3,578**

11. Easements and other capital receipts

The Council received £1,071k in Right to Buy receipts (compared to £1,400k in 2017/18) and a further £599k in other capital receipts (£32k in 2017/18)

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

The net gain on disposal of plant, property and equipment amounts to £40k (compared to a net gain of £25k in 2017/18)

13. Financing and investment income and expenditure

Previous year 2017/18 £'000		Current year 2018/19 £'000
42	Interest Payable and similar charges	267
2,897	Net interest on the net defined benefit liability	3,041
(125)	(Surplus)/Deficit on Trading Undertaking (note 38)	(155)
296	(Surplus)/Deficit on Investment Properties (note 17)	2,567
3,110	**Total Financing and Investment Expenditure**	**5,720**
(608)	Interest receivable and similar income	(1,428)
2,502	**Total Financing and Investment Income and Expenditure**	**4,292**

14. Taxation and non-specific grant income

Previous year 2017/18 £'000		Current year 2018/19 £'000
(14,394)	Council tax income	(14,892)
(4,747)	Non domestic rates	(7,326)
(7,483)	Non ring-fenced government grants	(4,624)
(26,624)	**Total Taxation and Non Specific Grant Income**	**(26,842)**

15. Property, plant and equipment

Movement in 2018/19:

	Total Land & Buildings £'000	Vehicles, Plant & Equipment £'000	Infra-structure Assets £'000	Com-munity Assets £'000	Surplus Assets £'000	Total Property Plant & Equipment £'000
Cost or Valuation						
As at 1 April 2018	50,261	4,488	1,097	698	0	**56,544**
Additions	1,025	315	0	0	0	**1,340**
Disposals	0	(333)	0	0	0	**(333)**
Revaluation Increases/(decreases) recognised in the Revaluation Reserve	980	26	0	0	0	**1,006**
Revaluation Increases/(decreases) recognised in the surplus/deficit on the Provision of Services	(897)	0	0	0	0	**(897)**
Impairment (losses)/reversals recognised in the surplus/deficit on the provision of services	98	0	0	0	0	**98**
As at 31 March 2019	**51,467**	**4,496**	**1,097**	**698**	**0**	**57,758**
Accumulated Depreciation						
As at 1 April 2018	(2,077)	(1,022)	(120)	0	0	**(3,219)**
Depreciation charge	(1,452)	(483)	(16)	0	0	**(1,951)**
Depreciation written out to the surplus/deficit on the Provision of Services	842	0	0	0	0	**842**
Derecognition – Disposals	0	316	0	0	0	**316**
Derecognition – Reclassification	0	0	0	0	0	**0**
As at 31 March 2019	**(2,687)**	**(1,189)**	**(136)**	**0**	**0**	**(4,012)**
Net Book Value						
At 31 March 2019	**48,779**	**3,307**	**961**	**698**	**0**	**53,746**
At 31 March 2018	**48,184**	**3,465**	**978**	**698**	**0**	**53,525**

Comparative movements in 2017/18

	Total Land & Buildings £'000	Vehicles, Plant & Equipment £'000	Infra-structure Assets £'000	Com-munity Assets £'000	Surplus Assets £'000	Total Property Plant & Equipment £'000
Cost or Valuation						
As at 1 April 2017	50,207	4,184	1,095	694	0	**56,180**
Additions	455	619	2	4	0	**1,080**
Disposals	(90)	(147)	0	0	0	**(237)**
Revaluation Increases/(decreases) recognised in the Revaluation Reserve	516	10	0	0	0	**526**
Revaluation Increases/(decreases) recognised in the surplus/deficit on the Provision of Services	(908)	(178)	0	0	0	**(1,086)**
Impairment (losses)/reversals recognised in the surplus/deficit on the provision of services	81	0	0	0	0	**81**
As at 31 March 2018	**50,261**	**4,488**	**1,097**	**698**	**0**	**56,544**
Accumulated Depreciation						
As at 1 April 2017	(1,510)	(921)	(103)	0	0	**(2,534)**
Depreciation charge	(1,369)	(362)	(16)	0	0	**(1,747)**
Depreciation written out to the surplus/deficit on the Provision of Services	792	114	0	0	0	**905**
Derecognition - Disposals	10	147	0	0	0	**157**
Derecognition - Reclassification	0	0	0	0	0	**0**
As at 31 March 2018	**(2,077)**	**(1,022)**	**(119)**	**0**	**0**	**(3,219)**
Net Book Value						
At 31 March 2018	**48,183**	**3,466**	**978**	**698**	**0**	**53,325**
At 31 March 2017	**48,698**	**3,263**	**992**	**694**	**0**	**53,647**

16. Property, Plant and Equipment valuation

All property, plant and equipment owned by South Somerset District Council have been valued on a five year rolling programme by an external independent valuer. This year the external independent valuer was Hannah Plowman, MRICS, District Valuer – in accordance with the Statements of Asset Valuation Practice and Guidance Notes of The Royal Institute of Chartered Surveyors. Not all assets are inspected each year as this is neither practicable nor considered by the valuer to be necessary for the purposes of the valuation. The basis of valuation is as set out in the Statement of Accounting Policies. The effective date of revaluation is 31st December 2018.

The Council has been given assurance by the external independent valuer that the carrying value of assets not revalued within year is not materially different to the fair value of the assets.

The following table shows the progress of the rolling programme:

	Land & Buildings £'000	Vehicles, Plant & Equipment £'000	Infrastructure Assets £'000	Community Assets £'000	Total £'000
Valued at historical cost	281	0	825	694	**1,800**
Valued at current value at:					
1st April 2014					
31st December 2015	8,292	1,073	0	0	**9,365**
31st December 2016	4,120	1,486	136	0	**5,742**
31st December 2017	10,508	642	0	4	**11,154**
31st December 2018	25,578	106	0	0	**25,684**
Total	**48,779**	**3,307**	**961**	**698**	**53,745**

17. Investment Property

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

Previous year 2017/18 £'000		Current year 2018/19 £'000
(1,002)	Rental Income from Investment Property	(1,845)
599	Operating Expenses and Financing costs arising from Investment Property	1,496
699	Net gains / Losses from fair value adjustments	3,341
296	**Total**	**2,567**

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

Previous year 2017/18 £'000		Current year 2018/19 £'000
6,004	Balance at the start of the year	17,633
12,328	Additions	12,076
(699)	Net gains / (losses) from fair value adjustments	(3,341)
0	Disposals	(259)
	Transfers:	
0	(To)/from Property, Plant & Equipment	0
17,633	**Balance at the end of the year**	**26,109**

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

Previous year 2017/18 £'000	Significant Unobservable Inputs (Level 2)	Current year 2018/19 £'000
17,283	Commercial Building	26,109
350	Commercial Land	0
17,633	**Investment Property**	**26,109**

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

18. Capital commitments

At 31 March 2019 the Council had a capital commitment of £55,000 relating to the installation of new software.

19. Construction contracts

At 31 March 2019 the Council had one large construction contract in progress, which was:

- Development of houses in Marlborough for £1,622,760

20. Intangible assets

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include software. All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Council. Software assets are assigned useful lives of between 3 and 5 years.

The movement on Intangible Asset balances during the year is as follows:

	31 March 2018 £'000	31 March 2019 £'000
Balance at start of year:		
• Gross carrying amounts	283	1,087
• Accumulated amortisation	(209)	(248)
Net carrying amount at start of year	**74**	**839**
Additions	804	822
Disposals	0	0
Amortisation for the period	(39)	(388)
Amortisation on disposal	0	0
Net Carrying amount at end of year	**839**	**1,273**
Comprising:		
• Gross carrying amounts	1,087	1,909
• Accumulated amortisation	(248)	(636)
Total Intangible Assets	**839**	**1,273**

21. Joint Operations

The Council is part of a joint operation called Lufton 2000, with Abbey Manor Developments Ltd, to purchase and develop 30 acres of industrial land at Lufton. The initial contribution was £351k in 1999/2000. In 2018/19, £519k was received from the sale of land at phase III of the project. The draft unaudited accounts of the joint operation for the year ended 31 March 2019 disclose net assets of £1.216m and a net profit of £720k. The shares are jointly held with SSDC and Abbey Manor Developments Ltd each holding a 50% interest.

The Council has recently setup SSDC Opium Power Ltd which is a special purpose vehicle (SPV) set up to deliver a renewable energy project. The shares are jointly held with SSDC and Opium Power Limited each holding a 50% interest. The Council has provided a secured term loan facility to the SPV to finance the acquisition of long-term assets, with the loan to be fully repaid before any distribution of profit to shareholders. The facility will commence full operation during 2019/20. The draft unaudited accounts of the joint operation for the year ended 31 March 2019 disclose net liabilities of £222k and a net loss of £222k, reflecting the start-up phase of the business.

A copy of these accounts may be obtained from the Council by telephoning 01935 462462.

31 March 2018 £'000		31 March 2019 £'000
767	Lufton 2000	608
0	SSDC Opium Power Ltd	(111)
767	**Investment in Joint Operations**	**497**

31 March 2018 £'000		31 March 2019 £'000
767	Lufton 2000	608
0	SSDC Opium Power Ltd	(111)
767	**Useable Reserves – Share in Joint Operations**	**497**

31 March 2018 £'000		31 March 2019 £'000
(159)	Lufton 2000	159
0	SSDC Opium Power Ltd	111
(159)	**Share of Other Income and Expenditure in Joint Operations**	**270**

22. Heritage Assets

31 March 2018 £'000		31 March 2019 £'000
1,763	Balance at start of year	1,763
0	Additions	16
0	Revaluations/(Impairments)	10
1,763	**Total Heritage Assets**	**1,789**

23. Long term debtors

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

31 March 2018 £'000		31 March 2019 £'000
954	Loans	10,784
8	Mortgages	6
279	Rights to receipts – long term lease	276
37	Car/bike/learning loans	12
1,278	**Total Long Term Debtors**	**11,078**

Further information relating to long term debtors is contained within Note 34 on Financial Instruments.

24. Inventories

2017/18				2018/19		
SSDC Consumables	**Property Acquired or constructed for sale**	**Total**		**SSDC Consumables**	**Property Acquired or constructed for sale**	**Total**
£'000	**£'000**	**£'000**		**£'000**	**£'000**	**£'000**
127	0	**127**	Balance 1 April	129	2,358	**2,487**
14	2,358	**2,375**	Purchases	14	1,326	**1,340**
(12)	0	**(12)**	Expenses in year	(10)	0	**(10)**
129	**2,358**	**2,487**	**Balance 31 March**	**133**	**3,684**	**3,817**

25. Short term debtors

31 March 2018 £'000		31 March 2019 £'000
603	Central Government Bodies	824
250	Other Local Authorities	454
0	NHS Bodies	1
6,325	Other Entities and Individuals	8,228
7,178	**Total Short Term Debtors**	**9,507**

26. Cash and cash equivalents

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

31 March 2018 £'000		31 March 2019 £'000
12	Cash held by the Authority	13
2,230	Short-term deposits with Business Reserve accounts and Money Market Funds	480
2,242	**Total Cash and Cash Equivalents**	**493**
(949)	Bank overdrafts	(702)
1,293	**Net Cash and Cash Equivalents as per cashflow statement**	**(209)**

27. Short-term Borrowings

31 March 2018 £'000		31 March 2019 £'000
0	Other Local Authorities	(11,500)
0	Other Entities and Individuals	(8,000)
0	**Total Short Term Borrowing**	**(19,500)**

28. Short-term creditors

31 March 2018 £'000		31 March 2019 £'000
(1,283)	Central Government Bodies	(1,839)
(362)	Other Local Authorities	(1,388)
(9)	NHS Bodies	(8)
(5,653)	Other Entities and Individuals	(5,873)
(7,307)	**Total Short Term Creditors**	**(9,108)**

29. Long term liabilities – creditors

31 March 2018 £'000		31 March 2019 £'000
(95)	Other Entities and Individuals	(185)
(95)	**Total Long term Liabilities - Creditors**	**(185)**

The long term liabilities – creditors relate to garden waste income for 2019/20 which was paid in advance.

30. Provisions

31 March 2018 £'000		31 March 2019 £'000
(1,261)	Business Rates Provisions for Appeals	(1,313)
(88)	MMI Provision	(88)
(1,349)	**Total Provisions**	**(1,401)**

31. Developers contribution deferred

31 March 2018 £'000		31 March 2019 £'000
(3,336)	Balance at start of year	(3,799)
(1,439)	Additional Deposits	(735)
976	Applied Deposits	855
(3,799)	**Total Developers Contribution Deferred**	**(3,679)**

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

32. Usable reserves

31 March 2018 £'000		31 March 2019 £'000
(4,361)	General Fund Balance	(4,593)
(18,176)	Earmarked Reserves	(17,506)
(25,268)	Capital Receipts Reserve	(22,798)
(1,038)	Capital Grants Unapplied	(1,694)
(767)	Authority's share of Joint Operation	(497)
(49,610)	**Total Usable Reserves**	**(47,088)**

Capital Receipts Reserve

31 March 2018 £'000		31 March 2019 £'000
(29,857)	Balance of Usable Receipts at 1 April	(25,268)
(1,752)	Receipts from Sale of Assets	(2,132)
6,336	Receipts applied to finance Capital Expenditure	4,600
5	Amount payable to the housing capital receipt pool	2
(25,268)	**Total Capital Receipts Reserve**	**(22,798)**

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

Capital Grants Unapplied

31 March 2018 £'000		31 March 2019 £'000
(469)	Balance at start of year	(1,038)
(644)	Additional Capital Grants recognised through the Comprehensive Income and Expenditure Statement	(793)
75	Applied Deposits	137
(1,038)	**Total Capital Grants Unapplied**	**(1,694)**

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

Transfers to/from earmarked reserves

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

	Balance as at 31 March 2017 £'000	Transfers in 2017/18 £'000	Transfers out 2017/18 £'000	Balance as at 31 March 2018 £'000	Transfers in 2018/19 £'000	Transfers out 2018/19 £'000	Balance as at 31 March 2019 £'000
Capital Fund	(1,245)	(324)	295	(1,274)	(189)	186	(1,277)
Cremator Replacement Reserve	(651)	0	102	(549)	0	0	(549)
Internal Borrowing Repayments	(23)	(35)	0	(58)	(60)	0	(118)
Elections Reserve	(149)	(40)	0	(189)	(41)	0	(230)
Risk Management Reserve	(11)	0	11	0	0	0	0
Sports Facilities Reserve	(21)	0	0	(21)	(10)	0	(31)
Local Plan Inquiry Reserve	(71)	0	0	(71)	0	71	0
Yeovil Athletics Track Repairs	(125)	(26)	0	(151)	(18)	2	(167)
Planning Delivery Reserve	(26)	0	10	(16)	0	0	(16)
Bristol to Weymouth Rail Reserve	(11)	(15)	0	(26)	(2)	0	(28)
Local Authority Business Growth	(27)	0	13	(14)	0	14	0
Yeovil Refresh Reserve	(120)	(2)	0	(122)	0	10	(112)
IT Replacement Reserve	(17)	0	7	(10)	0	0	(10)
Insurance Fund	(53)	0	3	(50)	0	0	(50)
Transformation Fund	(783)	(3,342)	1,859	(2,266)	(388)	2,425	(229)
Treasury Management Reserve	(100)	0	0	(100)	(50)	0	(150)
Local Plan Implementation Fund	(125)	0	0	(125)	0	125	0
Revenue Grant Reserve	(673)	(343)	228	(788)	(436)	720	(504)
MTFP Support Fund	(6,624)	(896)	1,508	(6,012)	0	993	(5,019)
CTAX/Housing Benefits Reserve	(676)	(283)	334	(625)	(300)	103	(822)
Closed Churchyards Reserve	(3)	(15)	19	1	(13)	1	(11)
Health Inequalities	(32)	0	0	(32)	0	0	(32)
Deposit Guarantee Claims Reserve	(7)	(1)	3	(5)	0	1	(4)
Park Homes Replacement Reserve	(164)	0	0	(164)	(62)	0	(226)
Planning Obligations Admin Reserve	(35)	0	0	(35)	0	5	(30)
Local Strategic Partnership Reserve	(23)	0	15	(8)	0	8	0
Artificial Grass Pitch Reserve	(85)	(23)	0	(108)	(20)	0	(128)
Business Support Scheme (flooding)	(158)	0	19	(139)	0	17	(122)

	Balance as at 31 March 2017 £'000	Trans-fers in 2017/18 £'000	Trans-fers out 2017/18 £'000	Balance as at 31 March 2018 £'000	Trans-fers in 2018/19 £'000	Trans-fers out 2018/19 £'000	Balance as at 31 March 2019 £'000
Regeneration Fund	(932)	0	129	(803)	(1,508)	217	(2,094)
NNDR Volatility Reserve	(1,309)	(2,646)	0	(3,955)	0	0	(3,955)
Ticket Levy Income	(6)	(118)	89	(35)	(141)	112	(64)
Waste Reserve	(230)	0	15	(215)	(79)	0	(294)
Community Housing Fund	(263)	0	52	(211)	0	0	(211)
Community Safety Reserve	0	0	0	0	(79)	0	(79)
Housing and Homelessness Reserve	0	0	0	0	(458)	0	(458)
Commercial Investment Reserve	0	0	0	0	(132)	0	(132)
Spatial Policy Reserve	0	0	0	0	(334)	0	(334)
YIC Maintenance Reserve	0	0	0	0	(20)	0	(20)
Total Reserves	**(14,778)**	**(8,109)**	**4,711**	**(18,176)**	**(4,340)**	**5,010**	**(17,506)**

33. Unusable reserves

31 March 2018 £'000		31 March 2019 £'000
(21,593)	Revaluation Reserve	(21,981)
(524)	Available for Sale Financial Instruments Reserve	0
0	Pooled Fund Adjustment Account	(430)
(35,872)	Capital Adjustment Account	(33,915)
(291)	Deferred Capital Receipts	(286)
81,138	Pensions Reserve	76,596
886	Collection Fund Adjustment Account	(1,043)
249	Accumulating Compensated Absences Adjustment Account	244
23,993	**Total Unusable Reserves**	**19,185**

Revaluation Reserve

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

31 March 2018 £'000		31 March 2019 £'000
(21,689)	Balance at start of year	(21,593)
(1,457)	Revaluation gains on non-current assets	(1,699)
931	Downward revaluation on non-current assets	683
35	Disposals of non-current assets	14
587	Current value depreciation transferred to Capital Adjustment Account	614
(21,593)	**Total Revaluation Reserve**	**(21,981)**

Available-for-Sale Financial Instruments Reserve

The Available-for-Sale Financial Instruments Reserve holds the gains and losses arising from the policy of carrying Available-for Sale Financial Instruments at fair value.

31 March 2018 £'000		31 March 2019 £'000
(394)	Balance at start of year	(524)
0	Loss on derecognition/maturity	0
0	Reclassification of financial instruments	524
(130)	Revaluation gains on available for sale financial instruments reserve	0
(524)	**Total Available-for-Sale Financial Instruments Reserve**	**0**

The introduction of IFRS9 Financial Instruments with effect from 1 April 2018 has removed this reserve.

The transition to IFRS9 states that the balance of the Available for Sale Reserve should be either transferred to the General Fund Opening Balance or to the Pooled Fund Adjustment Account (see below).

Pooled Fund Adjustment Account

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

31 March 2018 £'000		31 March 2019 £'000
	Balance at start of year	0
	Reclassification of financial instruments	(535)
	Loss on derecognition/maturity	0
	Revaluation losses on pooled fund adjustment account	106
	Total Pooled Fund Adjustment Account	**(429)**

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

Capital Adjustment Account

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

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

31 March 2018			31 March 2019	
£'000	£'000		£'000	£'000
	(32,017)	**Balance at start of year**		**(35,872)**
(6,336)		Capital Expenditure financed from Capital Receipts	(4,600)	
(587)		Current value depreciation transferred from Revaluation Reserve	(614)	
(169)		Minimum Revenue Provision	(221)	
(295)		Revenue Contribution to capital	(186)	
(2,024)		Capital Grants and Contributions Applied	(1,525)	
	(9,411)			**(7,146)**
		Less:		
2,723		Write down of Revenue Expenditure funded from Capital under Statute	2,969	
60		Carrying amount of assets disposed	108	
1,785		Depreciation	2,341	
86		Impairment	(54)	
699		Movement in market value of Investment Property	3,505	
203		Repayment of Capital Loans	234	
	5,556			**9,103**
	(35,872)	**Total Capital Adjustment Accounts**		**(33,915)**

Deferred Credits Account

31 March 2018 £'000		31 March 2019 £'000
(300)	Balance at start of year	(291)
6	Repayment of mortgages on sale of Council Houses	2
3	Right to Receipts – St Johns Ambulance	3
(291)	**Total Deferred Credits**	**(286)**

Pensions Reserve

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

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

31 March 2018 £'000		31 March 2019 £'000
86,471	Balance at start of year	81,138
(9,204)	Re-measurement of the net defined benefit liability	(8,005)
7,233	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provisions of Services in the Comprehensive Income and Expenditure Statement	7,067
(3,362)	Employer's pensions contributions and direct payments to pensioners payable in year	(3,604)
81,138	**Total Pensions Reserve**	**76,596**

Collection Fund Adjustment Account

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

31 March 2018 £'000		31 March 2019 £'000
(780)	Balance at start of year	886
47	Collection Fund Adjustment in year for Council Tax	146
1,619	Collection Fund Adjustment in year for non-domestic rates	(2,075)
886	**Total Collection Fund Adjustment Account**	**(1,043)**

Accumulating Compensated Absences Adjustment Account

The Accumulating Compensated Absences Adjustment Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31 March 2019. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfer to or from the Account.

31 March 2018			31 March 2019	
£'000	£'000		£'000	£'000
	250	**Balance at start of year**		**249**
(250)		Settlement or cancellation of accrual made at the end of preceding year	(249)	
249		Amounts accrued at the end of the current year	245	
	(1)	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		(4)
	249	**Total Accumulating Compensated Absences Adjustment Account**		**245**

34. Financial Instruments

The Authority's accounting policies relating to financial instruments are in accordance with the 2018/19 Code of Practice on Local Authority Accounting.

Financial Instruments Balances

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

31 March 2018			31 March 2019	
Long Term £'000	**Current £'000**	**Financial Liabilities**	**Long Term £'000**	**Current £'000**
		Loans at amortised cost:		
		Principal sum borrowed		19,500
		Accrued interest		16
0	**0**	**Total Borrowing**	**0**	**19,516**
		Liabilities at amortised cost:		
95	3,484	Trade payables	185	3,188
81	56	Finance Lease	51	30
176	**3,540**	**Included in Creditors**	**236**	**3,218**
176	**3,540**	**Total Financial Liabilities at amortised cost**	**236**	**22,734**

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

31 March 2018			31 March 2019	
Long Term £'000	**Current £'000**	**Financial Assets**	**Long Term £'000**	**Current £'000**
		At amortised cost		
4,280	9,978	Principal	1,000	2,000
		Accrued Interest	4	3
		Loss Allowance		(1)
		At fair value through profit & loss		
4,164	16,147	Fair value	2,129	25,687
8,444	**26,125**	**Total Investments**	**3,133**	**27,689**
		At amortised cost		
	400	Principal		0
		Accrued Interest		
		Loss Allowance		
		At fair value through profit & loss		
	1,830	Fair value		481
	2,230	**Total Cash and Cash Equivalents**		**481**
		At amortised cost		
		Trade receivables		2,590
	1,765	Loans and Receivables	11,079	2,046
	1,765	**Included in Debtors**	**11,079**	**4,636**
8,444	**30,120**	**Total Financial Assets**	**14,212**	**32,806**

Financial Instruments Gains/Losses

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

31 March 2018					31 March 2019			
Financial Liabilities Amortised Cost	**Financial Assets**				**Financial Liabilities Amortised Cost**	**Financial Assets**		
	Amortised Cost	**Fair Value through Profit & Loss**	**Total**	**Financial Assets**		**Amortised Cost**	**Fair Value through Profit & Loss**	**Total**
£'000	**£'000**	**£'000**	**£'000**		**£'000**	**£'000**	**£'000**	**£'000**
42			42	Interest expense	267			267
				Losses on derecognition			5	5
				Losses from change in fair value			3	3
42			**42**	**Interest payable and similar charges**	**267**		**8**	**275**
	(223)	(384)	(607)	Interest income		(456)	(970)	(1,426)
				Gains on derecognition				
				Gains from change in fair value			(14)	(14)
	(223)	**(384)**	**(607)**	**Interest & Investment Income**		**(456)**	**(984)**	**(1,440)**
42	**(223)**	**(384)**	**(565)**	**Net impact on (surplus)/deficit on provision of services**	**267**	**(456)**	**(976)**	**(1,165)**
		(130)	(130)	(Gain)/Losses on revaluation			106	106
42	**(223)**	**(514)**	**(695)**	**Net (Gain)/Loss for the year**	**267**	**(456)**	**(870)**	**(1,059)**

Transition to IFRS 9 Financial Instruments

The Council adopted the IFRS 9 Financial Instruments accounting standard with effect from 1st April 2018. The main changes include the reclassification and re-measurement of financial assets and the earlier recognition of the impairment of financial assets.

The Council has made use of the transitional provisions in IFRS 9 to not restate the prior year's financial statements, and the effect of the remeasurement is instead shown as an additional line in the Movement in Reserves Statement. The changes made on transition to the balance sheet are summarised below:

	IAS 39 31 March 2018 £'000	Reclassification £'000	Impairment £'000	IFRS 9 1 April 2018 £'000
FINANCIAL ASSETS				
Investments				
Loans & Receivables/Amortised Cost	12,521	0	(2)	12,519
Available for Sale/FVOCI	6,776	(6,776)		0
FVPL	0	6,776		6,776
Total Investments	**19,296**	**0**	**(2)**	**19,294**
Cash & Cash equivalents				
Loans & Receivables/Amortised Cost	(537)	1,831		1,294
Available for Sale/FVOCI	0	0	0	0
FVPL	15,436	(1,831)		13,605
Total Cash & Cash Equivalents	**14,899**	**0**	**0**	**14,899**
Debtors				
Loans & Receivables/Amortised Cost	**1,765**	**0**	**(1)**	**1,764**
TOTAL FINANCIAL ASSETS	**35,961**	**0**	**(3)**	**35,958**
FINANCIAL LIABILITIES				
Finance Lease				
Amortised Cost	(137)	0	0	(137)
Creditors				
Amortised Cost	(3,579)	0	0	(3,579)
TOTAL FINANCIAL LIABILITIES	**(3,716)**	**0**	**0**	**(3,716)**
RESERVES				
Usable Reserves				
General Fund	(22,537)	11	3	(22,523)
Other Usable Reserves	(27,073)			(27,073)
Total Usable Reserves	**(49,610)**	**11**	**3**	**(49,595)**
Unusable Reserves				
Available for Sale Financial Instruments Reserve	(524)	524		0
Capital Adjustment Account	(35,872)		0	(35,872)
Other Unusable Reserves	60,389	(536)		59,853
Total Unusable Reserves	**23,993**	**(11)**	**0**	**23,982**
TOTAL RESERVES	**(25,617)**	**0**	**3**	**(25,614)**

Financial Instruments – Fair Values

Financial instruments, except those classified at amortised cost, are carried in the Balance Sheet at fair value. For these assets, including bonds, treasury bills and shares in money market funds and other pooled funds, the fair value is taken from the market price.

The fair values of other instruments have been estimated calculating the net present value of the remaining contractual cash flows at 31st March 2019 using the following methods and assumptions:

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

Financial Liabilities

31 March 2018			Fair Value Level	31 March 2019	
Carrying Amount £'000	**Fair Value £'000**	**Financial Liabilities**		**Carrying Amount £'000**	**Fair Value £'000**
		Financial Liabilities held at Amortised Cost			
		Long Terms Loans from PWLB			
		Other Long Term Loans	3	19,516	19,519
137	137	Finance Lease		81	81
	137	**Total**			**19,600**
3,579		Liabilities for which fair value is not disclosed	*	3,373	
3,716		**Total Financial Liabilities**		**22,970**	
		Recorded on Balance Sheet as:			
3,579		Short Term Creditors		3,373	
56		Short Term Borrowing		19,567	
81		Long Term Borrowing		30	
3,716				**22,970**	

* The fair value of short-term financial liabilities held at amortised cost, including trade payables, is assumed to approximate to the carrying amount.

The fair value of financial liabilities held at amortised cost is higher than their balance sheet carrying amount because the authority's loans includes loans where the interest rate payable is higher than the current rates available for similar loans as at the Balance Sheet date.

Financial Assets

31 March 2018		Financial Assets	Fair Value Level	31 March 2019	
Carrying Amount £'000	Fair Value £'000			Carrying Amount £'000	Fair Value £'000
		Financial Assets held at Fair Value			
1,831	1,831	Money Market Funds	1	481	481
13,605	13,605	Bond, Equity and Property Funds	1	23,679	23,679
6,776	6,776	Covered Bonds & Floating Rate Notes	1	4,137	4,137
		Financial Assets held at Amortised Cost			
(937)	(937)	Bank Accounts		(689)	(689)
12,921	12,921	Term Deposits		3,007	3,007
1,399	1,399	Loans made for Service Purposes	3	12,366	12,366
35,595	**35,595**	**Total**		**42,981**	**42,981**
366		Assets for which fair value is not disclosed		2,905	
35,961		**Total Financial Assets**		**45,886**	
		Recorded on Balance Sheet as:			
7,170		Long Term Investments		3,134	
1,278		Long Term Debtors		11,079	
12,126		Short Term Investments		4,010	
487		Short Term Debtors		4,192	
14,900		Cash & Cash Equivalents		23,471	
35,961				**45,886**	

Financial assets classified as loans and receivables are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31st March 2019. The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount given the low and stable interest rate environment.

Financial Instruments – Risk

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

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

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

The Council's activities expose it to a variety of financial risks:

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

Credit Risk: Investments

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

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence as the 31 March 2019 that this was likely to crystallise.

The Table below summarises the credit risk exposures of the Council's investment portfolio by credit rating.

Credit Rating	**Long Term**		**Short Term**	
	31/03/2019	**31/03/2018**	**31/03/2019**	**31/03/2018**
	£'000	**£'000**	**£,000**	**£'000**
AAA	2,000	4,000	2,480	5,330
AA+				
AA				
AA-				1,500
A+				
A				3,400
A-				
Unrated Local Authorities	1,000	3,000	2,000	5,000
Unrated Pooled Funds			23,250	12,000
Total Investments (nominal amount)	**3,000**	**7,000**	**27,730**	**27,230**

Liquidity Risk

South Somerset District Council ensures it has adequate, though not excessive, cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives.

The Council has ready access to borrowing at favourable rates from the Public Works Loan Board and other local authorities, and at higher rates from banks and building societies. There is no perceived risk that the Council will be unable to raise finance to meet its commitments. It is however exposed to the risk that it will need to refinance a significant proportion of its borrowing at a time of unfavourably high interest rates.

The Council's current borrowing matures in April 2019, there will be a need to replace this borrowing. There will be an additional borrowing requirement going forward, the Council ensure that borrowing costs are kept to a minimum and seek advice from its Treasury Management advisors to ensure this is achieved.

Market risk – Interest rate risk

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

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

Investments classed at "loans and receivables" and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus and Deficit on the Provision of Services. Movement in fair value of fixed rate investments classed as "available for sale" will be reflected in Other Comprehensive Income and Expenditure.

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

According to this assessment strategy, at 31 March 2019, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

31 March 2018 £'000		31 March 2019 £'000
0	Increase in interest payable on variable rate borrowings	191
(70)	Increase in interest receivable on variable rate investments	(40)
(70)	**Impact on Surplus or Deficit on the Provision of Services**	**151**
0	Decrease in fair value of fixed rate borrowings	0
145	Decrease in fair value of fixed rate investments	73

Market Risk – Price risk

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

The Council's investment in a pooled property fund and pooled equity funds are subject to the risk of falling commercial property prices or falling share prices. This risk is limited by the Council's maximum exposure to pooled funds of £10m nominal value per fund. A 5% fall in commercial property prices or share prices would result in a £660k charge to Other Comprehensive Income and Expenditure – this would have no impact on the General Fund until the investments were sold.

Market risk – Foreign exchange risk

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

35. Cash Flow Statement – Operating activities

The cash flows for operating activities include the following items:

Previous Year 2017/18 £'000		Current Year 2018/19 £'000
591	Interest received	1,116
(42)	Interest paid	(61)
549	**Net Cash Flows from Operating Activities relating to interest**	**1,055**

Previous Year 2017/18 £'000		Current Year 2018/19 £'000
1,787	Depreciation and amortisation	2,339
99	Impairment and downward valuations	(43)
699	Movement in market value of investment property	3,600
(2,847)	Increase/(decrease) in creditors	1,892
(2,033)	(Increase)/decrease in debtors	(2,775)
(2,360)	(Increase)/decrease in inventories	(1,330)
463	Increase/(decrease) in developer contributions	(120)
(867)	Increase/(decrease) in provisions	52
3,871	Movement in pension liability	3,463
80	Carrying amounts of non-current assets and non-current assets held for sale, sold or derecognized	17
0	Other non-cash items charged to the net surplus or deficit on the provision of services	0
(1,108)	**Total Adjustments for Non-Cash Movements**	**7,095**

Previous Year 2017/18 £'000		Current Year 2018/19 £'000
(1,744)	Proceeds from the sale of property, plant and equipment and intangible assets	(2,132)
0	Any other items for which the cash effects are investing or financing cash flows	0
(1,744)	**Total Adjustments for Investing and Financing Activities**	**(2,132)**

36. Cash Flow Statement – Investing activities

Previous Year 2017/18 £'000		Current Year 2018/19 £'000
(14,212)	Purchase of property, plant and equipment, investment property and intangible assets	(14,254)
(314,417)	Purchase of short-term and long-term investments	(215,578)
0	Other payments for investing activities	(9,840)
1,745	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	2,132
333,819	Proceeds from sale of short-term and long-term investments	217,470
458	Other receipts from investing activities	481
7,393	**Net Cash Flows from Investing Activities**	**(19,589)**

37. Cash Flow Statement – Financing activities

Previous Year 2017/18 £'000		Current Year 2018/19 £'000
0	Cash receipts of short-term borrowing	19,500
(52)	Cash payments for the reduction of the outstanding liabilities relating to finance leases	(30)
(52)	**Net Cash Flows from Financing Activities**	**19,470**

38. Trading operations

Until 31st March 2018 the Council operated four trading activities. From the 1st April 2018 these have been reviewed against the CIPFA guidance and reclassified to reflect their current purpose. Properties which are not investment properties have been classified as other activities, our markets classified to economic development and our catering function now held as an internal support service.

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

Previous Year		Current Year		
2017/18 (Surplus)/Deficit £'000		2018/19 Expenditure £'000	2018/19 Income £'000	2018/19 (Surplus)/Deficit £'000
(125)	Careline	255	(409)	(154)
(125)	**Total Trading Accounts**	**255**	**(409)**	**(154)**

39. Members' Allowances

Previous Year 2017/18 £'000		Current Year 2018/19 £'000
389	Basic Allowance	397
118	Special Responsibility Allowance	112
16	Expenses	17
523	**Total Members Allowance**	**526**

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

40. Officers' Remuneration

During the 2018/19 financial year the number of officers who received remuneration, which includes salary, leased car and termination payments, in excess of £50k were as follows:

2017/18			Remuneration Band	2018/19		
Total	Left during year	Compensation for loss of office		Total	Left during year	Compensation for loss of office
5	2	1	£50,000 - £54,999	10	4	4
3	2	2	£55,000 - £59,999	23	10	10
3	3	3	£60,000 - £64,999	7	3	3
1	1	1	£65,000 - £69,999	4	2	2
			£70,000 - £74,999	6	4	4
3	0	1	£75,000 - £79,999	3	3	3
			£80,000 - £84,999	1	1	1
1	1	1	£85,000 - £89,999	2	2	2
			£90,000 - £94,999	1	1	1
2	2	2	£95,000 - £99,999			
			£100,000 - £104,999	4	1	1
1	0	0	£110,000 - £114,999			
1	1	1	£120,000 - £124,999			
			£145,000 - £149,999	1	0	0
			£180,000 - £184,999	1	1	1
1	1	1	£185,000 - £189,999			

Senior Officers

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

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

Senior Officers' Emoluments

Current year 2018/19 Post Title	Name of officer	Salary (including Fees & Allowances) £'000	Benefits in kind £'000	Compen-sation for loss of office £'000	Total Remuneration (excl. pension contribution) £'000	Pension Contribution £'000	Total Remuneration (incl. pension contribution) £'000
Chief Executive	A Parmley	113	2	0	**115**	18	**133**

Previous year 2017/18 Post Title	Name of officer	Salary (including Fees & Allowances) £'000	Benefits in kind £'000	Compen-sation for loss of office £'000	Total Remuneration (excl. pension contribution) £'000	Pension Contribution £'000	Total Remuneration (incl. pension contribution) £'000
Chief Executive	A Parmley	111	1	0	**112**	18	**130**

Current Year 2018/19 Post Title	Salary (including Fees & Allowances) £'000	Benefits in kind £'000	Compen-sation for loss of office £'000	Total Remuneration (excl. pension contribution) £'000	Pension Contribution £'000	Total Remuneration (incl. pension contribution) £'000
Strategic Lead for Transformation	66	0	94	**160**	11	**171**
Director (Strategy and Support Services)	79	0	0	**79**	13	**92**
Director (Service Delivery)	80	1	0	**81**	13	**94**
Director (Commercial Services & Income Generation	79	1	0	**80**	13	**93**
Lead Specialist Legal/Monitoring Officer	53	0	0	**53**	9	**62**

The Council's S151 Officer is employed by Somerset West and Taunton Council (SWTC) and SSDC pays SWTC for 40% or 0.4 full time equivalent. As the Officer is not an employee of SSDC the remuneration details are not included above, with full remuneration details disclosed within the SWTC Statement of Accounts. However, in the interests of transparency, note the total costs charged SSDC for this post in 2018/19 was £42,680 including salary, on costs and expenses.

Previous Year 2017/18 Post Title	Salary (including Fees & Allowances) £'000	Benefits in kind £'000	Compen-sation for loss of office £'000	Total Remuneration (excl. pension contribution) £'000	Pension Contribution £'000	Total Remuneration (incl. pension contribution) £'000
Strategic Director (Place & Performance)	42	0	146	**188**	7	**195**
Assistant Director (Legal & Corporate Services) (until October 2017)	52	0	0	**52**	8	**60**
Lead Specialist Legal/Monitoring Officer (Monitoring Officer from November 2017)	53	0	0	**53**	9	**62**
Director (Strategy and Support Services) (from September 2017)	40	0	0	**40**	6	**46**
Director (Service Delivery)	79	1	0	**80**	12	**92**
Director (Commercial Services & Income Generation	77	0	0	**77**	12	**89**

Exit Packages

The total cost of £1.960m for 2018/19 (£871k for 2017/18) has been charged to the authority's Comprehensive Income and Expenditure Statement in the current year.

Exit Package Costs Band (including special payments)	Number of Compulsory Redundancies		Number of Voluntary/Efficiency of service		Total Number of Exit Packages		Total Cost of Exit Packages	
	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18 £'000	2018/19 £'000
£0 - £20,000	1	5	5	7	6	12	77	169
£20,001 - £40,000	2	15	9	24	11	39	335	1,160
£40,001 - £60,000	0	3	4	6	4	9	178	411
£60,001 - £80,000	2	2	0	0	2	2	135	126
£80,001 - £100,000	0	1	0	0	0	1	0	94
£100,001 - £150,000	0	0	1	0	1	0	146	0
TOTAL	**5**	**26**	**19**	**37**	**24**	**63**	**871**	**1,960**

Termination Benefits

The authority terminated the contracts of 63 employees in 2018/19, incurring liabilities of £1.960m (£871k in 2017/18). These officers were made redundant as part of the Authority's transformation of services.

41. Audit Costs

In 2018/19 the Council incurred the following fees relating to external audit and inspection:

Previous Year 2017/18 £'000		Current Year 2018/19 £'000
49	Fees payable to Grant Thornton UK LLP with regard to external audit services carried out by the appointed auditor	38
16	Fees payable to Grant Thornton UK LLP for the certification of grant claims and returns	10
65	**Total Audit Costs**	**48**

42. Grant Income

The Authority credited the following grants, contributions and donations to the Comprehensive income and Expenditure Statement in 2018/19.

Previous Year 2017/18 £'000		Current Year 2018/19 £'000
2,594	Capital Grants	2,181
3,896	New Homes Bonus	2,007
803	Revenue Support Grant (UK Government)	269
190	Other non-specific Government Grant	166
7,483	**Total Grants credited to taxation and Non-Specific Grant income and Expenditure**	**4,623**
1,117	Business Rates Tax loss reimbursement	2,680
224	Cost of Collection – Business Rates	223
38,426	Housing Benefits	33,011
156	Homelessness Grants	443
232	Miscellaneous Grants	286
40,155	**Total Grants credited to services**	**36,643**
47,638	**Total Grants**	**41,266**

43. Related Party Transactions

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

Precepts from Other Local Authorities are detailed on page 76 in Note 1 to the Collection Fund and receipts received from the UK Central Government (which exerts significant influence through legislation and grant funding) are detailed above in Note 41 to the Core Financial Statements.

Transactions to and from the Pension Fund are detailed on pages 70 to 73 in Note 48 to the Core Financial Statements.

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

Organisation	SSDC Contribution in 2018/19	SSDC Councillor
Access For All Solutions	£9,000 Service Level Agreement	Cllr S Dyke
Parrett Drainage Board	£62,039 as a special levy	Cllr M Lewis Cllr G Tucker Cllr N Weeks
South West Audit Partnership	£102,432 Audit Fees/Work	Cllr D Norris
South West Councils	£7,810 Subscription and training	Cllr S Seal
Local Government Association	£16,807 Membership, Conference, Training & Advice	Cllr R Pallister
St Peters Church Hall Replacement	£90,906 Community Hall Capital Claim Payment	Cllr J Clark
Somerton & Frome Conservatives	£6,195 Councillors deductions	Cllr H Burt
UNISON	£17,683 Employees subscriptions	Cllr D Bulmer

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

44. Capital expenditure and financing

Previous Year 2017/18			Current Year 2018/19	
£'000	£'000		£'000	£'000
	9,338	**Opening Capital financing Requirement**		17,439
		Capital Expenditure		
805		Intangible Non-Current Assets	821	
12,879		Non-Current Assets	23,077	
519		Assets under Construction	1,547	
0		Long Term Debtors	0	
2,723		Revenue Expenditure funded from Capital under Statute	2,969	
	16,926			28,414
		Sources of Finance		
(6,337)		Use of Capital Receipts	(4,560)	
(2,024)		Government Grants & Other Contributions	(1,525)	
(295)		Capital expenditure charged against the capital fund	(186)	
(169)		Minimum Revenue Provisions	(221)	
	(8,825)			(6,492)
	17,439	**Closing Capital Financing Requirement**		39,361

45. Leases

Authority as Lessee

Finance Leases

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

31 March 2018 £'000		31 March 2019 £'000
119	Vehicles, Plant, Furniture and Equipment	77
119	**Total Carrying Amount of Leases**	**77**

The Council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Council and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

31 March 2018 £'000		31 March 2019 £'000
138	Finance lease liabilities (net present value of minimum lease payments)	81
3	Finance Cost Payable in future years	5
141		**86**

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

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2018 £'000	31 March 2019 £'000	31 March 2018 £'000	31 March 2019 £'000
Not later than one year	55	33	56	30
Later than one year and not later than five years	86	53	82	51
Later than five years	0	0	0	0
Total Finance Lease Payments	**141**	**86**	**138**	**81**

Operating Leases

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

31 March 2018		£'000		31 March 2019		£'000
Vehicles, Plant & Equipment	Property	**Total**		Vehicles, Plant & Equipment	Property	**Total**
42	22	**64**	Not later than one year	42	28	**70**
6	90	**96**	Later than one year and not later than five years	48	90	**138**
0	869	**869**	Later than five years	0	869	**869**
48	**981**	**1,029**	**Total Operating Lease Payments**	**90**	**987**	**1,077**

The expenditure charged to services in the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

Previous Year 2017/18 £'000		Current Year 2018/19 £'000
	Minimum lease payments	
129	• Vehicles, Plant and Equipment	42
35	• Property	35
164	**Total Operating Lease Payments Charge to the Comprehensive Income and Expenditure Statement**	**77**

Authority as Lessor

Operating Leases

The Council leases out property and equipment under operating leases for economic development purposes to provide suitable affordable accommodation for local businesses.

The Council has granted leases in respect of a number of properties (principally commercial premises and business units) which are treated as operating leases. Rental income in respect of these properties for 2018/19 totalled £1.648m (2017/18 £1.008m).

46. Impairment Losses

During 2018/19, the Authority recognised a net impairment loss of £4.113m (£2.002m in 2017/18). This was made up of £4.004 reduction in value and £109k of reversing previous impairment losses.

The impairment losses of £3.430m have been charged to various service lines on the Comprehensive Income and Expenditure Statement and downward revaluations of £683k have been charged to the Revaluation Reserve.

47. Defined benefit pension schemes

Participation in Pension Schemes

As part of the terms and conditions of employment of its officers and other employees, the authority offers retirement benefits. Although these benefits will not actually be payable until employees retire, the authority has a commitment to make the payments at the time that employees earn their future entitlement.

South Somerset District Council participates in the Local Government Pension Scheme (LGPS) for employees, administered by Somerset County Council – this is a funded defined benefit scheme, meaning that the authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets. The benefits accrued up to 31 March 2019 are based on final salary and length of service on retirement. Changes to the LGPS came into effect from 1 April 2014 and any benefit accrued from this date will be based on career average revalued salary.

Transactions Relating to Post-Employment Benefits

The Council recognise the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are actually paid as pensions. However, the charge the Council is required to make against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the General Fund Balance via the Movement in Reserves Statement.

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

Previous Year 2017/18			**Current Year 2018/19**	
£'000	**£'000**		**£'000**	**£'000**
		Comprehensive Income and Expenditure Statement		
		Cost of Services:		
4,280		• Current service costs	3,966	
598		• Past service and curtailment costs	1,009	
56		• Administration Expenses	60	
	4,934			5,035
		Financing and Investment Income and Expenditure		
4,922		• Interest Cost	4,578	
(2,623)		• Return on Assets	(2,546)	
	2,299			2,032
	7,233	**Total Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement**		**7,067**

Previous Year 2017/18 £'000	Previous Year 2017/18 £'000		Current Year 2018/19 £'000	Current Year 2018/19 £'000
		Other Post Employment benefit charged to the Comprehensive Income and Expenditure Statement		
		Remeasurement of the net defined benefit liability comprising:		
(2,134)		Return on plan fund assets in excess of interest	(2,710)	
(7,070)		Change in financial assumptions	(5,295)	
		Change in demographic assumptions		
		Experience gain on defined benefit obligation		
		Other actuarial (gains)/losses on assets		
	(9,204)	**Total remeasurement of net defined benefit liability**		**(8,005)**
	(1,971)	**Total post employment benefit charged to the Comprehensive Income and Expenditure Statement**		**(938)**
		Movement in Reserves Statement		
		Reversal of net charges made to the surplus or deficit for the provision of services for post-employment benefits in accordance with the code		
		Actual amount charged against the General Fund Balance for pensions in the year:		
(3,149)		• Employer's contributions payable to scheme	(3,389)	
(213)		• Retirement benefits payable to pensioners	(215)	
	(3,362)			**(3,604)**

The change in financial assumptions reflects a decrease in the discount rate from 2.55% to 2.40%. The discount rate is based on corporate bond yields that match the duration of the employer's liabilities. Although the yields have been volatile they have decreased overall which indicates an increase in liabilities.

Assets and Liabilities in Relation to Retirement Benefits

The underlying assets and liabilities for retirement benefits attributable to the authority at 31 March 2019 are as follows:

Reconciliation of the Present Value of Scheme Liabilities and Fair Value of Scheme Assets to the Liabilities and Assets on the Balance Sheet

Previous Year 2017/18 £'000		Current Year 2018/19 £'000
178,779	Present Value of Funded Obligation	178,055
(100,645)	Fair Value of Assets in Scheme	(104,227)
78,134	**Net Liability**	**73,828**
3,004	Present Value of Unfunded Obligation	2,768
81,138	**Closing Balance at 31 March**	**76,596**

The liabilities show the underlying commitments that the authority has in the long-run to pay retirement benefits. The total liability of £76.596m has a substantial impact on the net worth of the authority as recorded in the balance sheet, resulting in an overall balance of £27.903m. However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy. The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

Reconciliation of Present Value of the scheme liabilities

Previous Year 2017/18 £'000		Current Year 2018/19 £'000
184,778	Opening Balance at 1 April	181,783
4,280	Current service cost	3,966
4,922	Interest cost	4,578
	Remeasurement (gains) and losses:	
(7,070)	Actuarial gains/losses from change in financial assumptions	5,040
0	Actuarial gains/losses from change in demographic assumptions	(10,335)
0	Experience loss/(gain) on defined benefit obligation	0
0	Liabilities assumed/(extinguished) on settlements	0
(6,204)	Estimated benefits paid net of transfers in	(5,692)
598	Past service costs, including curtailments	1,009
692	Contributions by scheme participants	689
(213)	Unfunded Pension Payments	(215)
181,783	**Closing balance at 31 March**	**180,823**

Reconciliation of Fair Value of Scheme Assets

Previous Year 2017/18 £'000		Current Year 2018/19 £'000
98,307	Opening Balance at 1 April	100,645
2,623	Interest on Assets	2,546
2,134	Return on Assets less interests	2,710
0	Other actuarial gains/(losses)	0
(56)	Administration expenses	(60)
3,362	Contribution by the employers	3,604
692	Contributions by scheme participants	689
(6,417)	Benefits paid	(5,907)
0	Settlement prices received/(paid)	0
100,645	**Closing balance at 31 March**	**104,227**

The expected return on assets is based on the long-term future expected investment return for each asset class at the beginning of the period. The return on gilts and other bonds are assumed to the gilt yield and corporate bond yield respectively (with an adjustment to reflect default risk) at the relevant date. The return on equities and property is then assumed to be a margin above gilt yields.

Sensitivity Analysis

	£'000	£'000	£'000
Adjustment to discount rate	+0.1%	0.0%	-0.1%
Present value of total obligation	177,550	180,823	184,161
Projected service cost	3,860	3,953	4,049
Adjustment to long term salary increase	+0.1%	0.0%	-0.1%
Present value of total obligation	180,977	180,823	180,670
Projected service costs	3,953	3,953	3,953
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	-0.1%
Present value of total obligation	184,004	180,823	177,700
Projected service costs	4,049	3,953	3,860
Adjustment to mortality age rating assumption	+1 Year	None	-1 Year
Present value of total obligation	187,800	180,823	174,114
Projected service costs	4,079	3,953	3,831

Projected Pension Expense for the year to 31 March 2020

	Year to 31 March 2020 £'000
Service Cost	3,953
Net Interest on the defined liability	1,795
Administration expenses	62
Total Loss/(Profit)	**5,810**
Employer Contributions	**3,346**

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumption about mortality rates, salary levels etc. The Peninsula Pension Fund liabilities have been assessed by Barnett Waddingham, an independent firm of actuaries. Estimates for the Peninsula Pension Fund being based on the latest full valuation of the scheme as at 31 March 2016.

The principal assumptions used by the actuary have been:

31 March 2018		31 March 2019
2.30%	Rate of inflation (CPI)	2.40%
3.80%	Rate of general long-term increase in salaries	3.90%
2.30%	Rate of increase to pensions in payment	2.40%
2.30%	Rate of increase to deferred pensions	2.40%
2.55%	Discount Rate	2.40%

Assumed life expectations from aged 65 (years) are:

	Males	Females
Current Pensioners	22.9	24.0
Future Pensioners (20 years from now)	24.6	25.8

The fair value of the total scheme assets comprises the following categories, by proportion of the total assets held:

% of total Scheme as at 31 March 2018	Value of total Scheme as at 31 March 2018 £'000		% of total Scheme as at 31 March 2019	Value of total Scheme as at 31 March 2019 £'000
71	71,846	Equity Investments	70	72,847
6	5,446	Government Bonds	6	5,919
9	9,427	Corporate Bonds	9	9,521
10	9,555	Property	9	9,074
4	4,371	Cash	6	6,866
100	**100,645**		**100**	**104,227**

48. Contingent liabilities

There is a potential environmental risk in the Birchfield Park area as part of the land is an old landfill site. The site continues to be monitored and there is a bond in place with the developer to meet any liabilities resulting from the development of the road. However, there remains a residual liability of £311k that falls on the Council. A specific working group manages any risks within existing revenue and capital budgets.

In transferring employees to the Somerset Waste Partnership (SWP) the Council agreed a guarantee of last resort to the Somerset County Council Pension Fund for those employees transferred to Kier Group. The actuarial valuation at the time assessed the maximum liability at £748k. However, it is highly unlikely that this will ever be required as the SWP has the right over vehicles and depots and the staff would transfer back to the authority. The most recent actuarial valuation assessed the deficit at £275K. In addition, the contract with May Gurney CIC (now Kier Group) is to be terminated early in order that a new waste collection contract can be awarded, and as part of this process the Council's guarantee will be withdrawn.

South West Audit Partnership became a company limited by guarantee on 1st April 2013. The Council has guaranteed the Somerset County Council Pension fund deficit relating to ex-employees to a value of £149k. The nursery that was run by the Council has now transferred to Mama Bears. The Council has guaranteed £36k to the Somerset County Council Pension fund.

During the most recent year members of the national Firefighters (Sargeant case) and Judiciary (McCloud case) pension funds have taken the Government to court over whether protections provided to those within 10 years of retirement as part of transition regulations when the schemes were changed constitute discrimination on age grounds. On 20th December 2018 the Court of Appeal found that these protections were unlawful on the grounds of age discrimination and could not be justified. The Government has applied to the Supreme Court for permission to appeal the Court of Appeal decision but currently this appeal has not been resolved. Although the cases above are not directly related to the Local Government Pension Scheme (LGPS), similar protections were given when the LGPS moved to the new scheme in 2014 and therefore it is likely that if the Government loses the cases then changes to the LGPS would need to be made. There remains considerable uncertainty around this both in terms of the legal process and the eventual remedy that is put in place for the LGPS if required. If the Government loses the cases the best estimate of the potential impact that is currently available is a broad indication of between 0.5% and 1% of LGPS liabilities according to the Government Actuary's Department. Whilst this looks at a national picture the impact on any given employer could be significantly different to this range. Due to the level of uncertainty both in terms of possible outcomes and quantum we have not made any provision for this in the accounts.

49. Dorcas House

Dorcas House (otherwise known as Portreeves or Corporation Almshouses) is a registered charity, No 235337, whose trusteeship is vested in the Council. The Charity is restricted to being permitted to assist 'poor women residents in the Borough of Yeovil'.

A summary of the financial activities for Dorcas house Trust is shown in the table below:

Previous Year 2017/18 £'000		Current Year 2018/19 £'000
(3)	Total Income for the Year	(3)
1	Total Expenditure of the Year	0
(2)	**Deficit/(Surplus) for the Year**	**(3)**

(Brackets represent income)

Previous Year 2017/18 £'000		Current Year 2018/19 £'000
445	Capital & Unrestricted Funds	448
445	**Total Reserves**	**448**

The Statement of Accounts for Dorcas House Trust may be obtained by contacting The Council Offices, Brympton Way, Yeovil, Somerset, BA20 2HT.

Collection Fund Account

Income and Expenditure Account for the year ended 31 March 2019

This account reflects the statutory requirement contained in section 89 of the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992) for billing authorities to establish and maintain a separate fund for the collection and distribution of amounts due in respect of Council Tax and National Non Domestic Rates (NNDR).

Previous Year 2017/18		Year Ended 31 March 2019		
Collection Fund £'000		**Business Rates £'000**	**Council Tax £'000**	**Collection Fund £'000**
	Income			
(97,244)	Council Tax Receivable		(103,252)	(103,252)
(39,986)	Business Rates Receivable	(45,756)		(45,756)
	Transitional Protection Payments			
	Apportionment of Previous Year Deficit			
	Central Government	(1,198)		(1,198)
	Somerset County Council	(216)		(216)
	Devon & Somerset Fire & Rescue	(24)		(24)
	South Somerset District Council (including Parishes)	(959)		(959)
(137,230)	**Total Income**	**(48,153)**	**(103,252)**	**(151,405)**
	Expenditure			
20,820	**Precepts and Demands**	20,800		20,800
70,462	Central Government	3,744	71,516	75,260
10,784	Somerset County Council		11,626	11,626
5,254	Police and Crime Commissioner for Avon & Somerset	416	5,040	5,456
31,559	Devon & Somerset Fire & Rescue	17,125	14,992	32,117
	South Somerset District Council (including Parishes)			
648	**Apportionment of Previous Year Surplus**			
480	Central Government		295	295
60	Somerset County Council		48	48
40	Police and Crime Commissioner for Avon & Somerset		21	21
594	Devon & Somerset Fire & Rescue		63	63
	South Somerset District Council (including Parishes)			
840	**Charges to Collection Fund**	94	221	315
(62)	Write offs of uncollectable amounts	176	433	609
(1,618)	Increase/(Decrease) in bad debt	132		132
224	Increase/(Decrease) in Provision for Appeals	224		224
1,543	Cost of Collection	615		615
	Transitional Protection Payments			
	Interest Payable			
141,628	**Total Expenditure**	**43,326**	**104,255**	**147,581**
4,398	**(Surplus)/Deficit for Year**	(4,827)	1,003	(3,824)
(2,376)	**Balances at Start of Year**	2,592	(570)	2,022
2,022	**Balances at End of Year**	(2,235)	433	(1,802)

Previous Year 2017/18	Attributable to:	Year Ended 31 March 2019		
Collection Fund £'000		Business Rates £'000	Council Tax £'000	Collection Fund £'000
1,296	Central Government	(1,118)		(1,118)
(161)	Somerset County Council	(201)	299	98
(64)	Police and Crime Commissioner for Avon & Somerset		50	50
(2)	Devon & Somerset Fire & Rescue	(22)	21	(1)
953	South Somerset District Council (including Parishes for Council Tax)	(894)	63	(831)
2,022		(2,235)	433	(1,802)

(Brackets represent income or liabilities)

Notes to the Collection Fund

The Collection Fund is a statutory fund set up to deal with the collection and distribution of amounts due in respect of Council tax and Business Rates. The collection fund is managed and administered by South Somerset District Council as the Billing Authority on behalf of the council tax-payers and business rate-payers within its area. All sums raised from council tax and business rates are paid into the fund together with relevant government grants. Payments out of the fund include contributions to the national Non-Domestic Rate pool and precept payments to Somerset County Council, Police and Crime Commissioner for Avon & Somerset, Devon & Somerset Fire & Rescue Authority, South Somerset District Council and Town/Parish Councils to fund their net service requirements.

1. **Income from Council Tax**

Council Tax income is calculated by estimating the amount of income or precept required from the Collection Fund for Somerset County Council, Police and Crime Commissioner for Avon & Somerset, Devon & Somerset Fire & Rescue Authority and South Somerset District Council.

The estimate is made by calculating a tax base and dividing the precepts by the tax base to establish the tax payable for a Band D property (properties in other bands pay a proportion of the Band D charge). The first step in calculating the tax base is to adjust the total number of properties in each band to the effective number of properties by reducing the number to allow for the number of discounts and exemptions. The effective number of dwellings is then converted to the number of Band D equivalents by applying the weighting for each band. The following table illustrates how the tax base has increased from 2017/18.

Tax Base						
Previous Year 2017/18					**Current Year 2018/19**	
Effective No of dwellings	Band D Equivalent	Weighting	Tax Band	Property Value (at April 1991)	Effective No of dwellings	Band D Equivalent
10	5	5/9ths	A-	Disabled band	7	4
8,532	5,688	6/9ths	A	Up to £40,000	8,568	5,712
19,880	15,463	7/9ths	B	Between £40,001 & £52,000	19,966	15,529
14,579	12,959	8/9ths	C	Between £52,001 & £68,000	14,683	13,051
10,823	10,823	1	D	Between £68,001 & £88,000	10,993	10,994
8,635	10,554	11/9ths	E	Between £88,001 & £120,000	8,726	10,665
4,450	6,427	13/9ths	F	Between £120,001 & £160,000	4,518	6,526
1,748	2,913	15/9ths	G	Between £160,001 & £320,000	1,760	2,933
142	285	18/9ths	H	Over £320,000	142	285
68,799	**65,117**				**69,363**	**65,699**
	(599)			Less adjustment for non-collection and banding reductions		(606)
	(5,205)			Less adjustment for Council Tax Reduction Scheme		(5,105)
	59,313			**Council Tax Base**		**59,988**

Details of the precepts are shown below:

Previous Year 2017/18 £	Precepting Authorities	Current Year 2018/19 £
66,714,718	Somerset County Council	71,515,639
10,783,504	Police and Crime Commissioner for Avon & Somerset	11,626,109
4,838,165	Devon & Somerset Fire & Rescue Authority	5,039,615
9,340,618	District Council's own requirement	9,746,896
5,025,361	Total of Parish Precepts & Levies	5,228,082

The council tax for Band D, calculated by dividing the precepts by the tax base, is shown below:

Previous Year 2017/18 £	Council Tax Levy at Band D	Current Year 2018/19 £
1,124.79	Somerset County Council	1,192.16
181.81	Police and Crime Commissioner for Avon & Somerset	193.81
81.57	Devon & Somerset Fire & Rescue Authority	84.01
157.48	South Somerset District Council	162.48
1,545.65		1,632.46
84.73	Add Town & Parish Councils (average)	87.15
1,630.38	**Average Council Tax Levy at Band D**	**1,719.61**

2. Council Tax Surplus/Deficit on collection fund

An estimate is made each January of the surplus or deficit on the collection fund in order for the County, Police Authority, Fire & Rescue Authority and the District Council to take into account when setting their precept for the following year.

3. Income collectable from business rate payers

The Council collects the Business Rates on behalf of the Government. HM Revenue & Customs assesses the Rateable Values and the Government sets the rate in the £ (or multiplier). Comparative details are shown below:

Previous Year 2017/18		Current Year 2018/19
	National Non-Domestic Rates (NNDR)	
£117,714,447	Rateable value at 31st March	£118,472,937
	NNDR rate poundage	
47.9p	- National Multiplier	49.3p
46.6p	- Small Business Multiplier	48.0p

4. Debtors for Local Taxation

The debtors for Local Taxation represent the Council's share only and not for the whole of the collection fund. The past due but not impaired amount for local taxation (council tax and non-domestic rates) can be analysed by age as follows:

Previous Year 2017/18 £'000	Period	Business Rates £'000	Council Tax £'000	Total 2018/19 £'000
234	Less than 2 months	56	56	112
122	2 to 4 months	99	98	197
58	4 to 6 months	108	107	215
381	6 to 12 months	251	248	499
1,054	More than 12 months	580	575	1,155
1,849	**Total**	**1,094**	**1,084**	**2,178**

Glossary of Terms

Local Government, in common with many specialized activities, has developed over the years its own unique set of terms and phrases.

This glossary helps to identify some of those terms and phrases (more often than not abbreviated in common usage to initial letters only) which will be found in this statement.

Accruals
are one of the main accounting concepts and ensures that income and expenditure are shown in the accounting period that they are earned or incurred, not as money is received or paid.

Accumulated Absences Account
is the account that holds the differences between the amounts debited or credited to the Comprehensive Income and Expenditure Statement in accordance with the Code and the amounts debited and credited to the General Fund in accordance with the statutory regulations relating to accruals made for the cost of holiday entitlements earned by employees but not yet taken before the year end.

Agency Work
is the provision of services by an authority on behalf of, and reimbursed by, the responsible authority/body.

Amortised Cost
is a mechanism that sees through the contractual terms of a financial instrument to measure the real cost or return to the authority by using the effective interest rate method which incorporates the impact of premiums or discounts.

Annual Governance Statement (AGS)
sets out the arrangements the authority has put in place to manage and mitigate the risks it faces when meeting its responsibilities.

Apportionments
are a mechanism for allocating the cost of support services to front line and other services using appropriate bases (e.g. floor space for accommodation related support services to spread the cost fairly).

Appropriation
is the transfer of an asset (e.g. land, buildings) from one service to another.

Asset
is something that South Somerset owns that has a monetary value. Assets are either 'current' or 'non-current'.

- Current assets are assets that will be used, or will cease to have material value, by the end of the next financial year (e.g. stock and debtors)
- Non-current assets provide South Somerset benefits for a period of more than one year.

Audit of Accounts
is an examination by an independent expert of an organisation's financial affairs to check that the relevant legal obligations and the codes of practice have been followed.

Available-for-Sale Assets
are financial assets which are not classed as loans and receivables. These include gilt-edged stocks and bonds which are quoted in an active market. They are carried in the balance sheet at fair value.

Available-for-Sale Financial Instruments Reserve
is a revaluation reserve introduced to manage the fair value process for Available-for-Sale Financial Assets. It is permitted to have a negative value provided that the losses posted to it are not impairment losses.

Balances
is the accumulated surplus of revenue income over expenditure.

Balance Sheet

is a financial statement summarizing the Council's assets, liabilities and other balances at the end of each accounting period.

Budget
is a financial statement that expresses an organisation's service, delivery plans and capital programmes in monetary terms.

Capital Adjustment Account
is a reserve created from the balances on the Capital Financing Account and Fixed Asset Restatement Account as at 31 March 2007. This account will continue to record the consumption of historic cost over the life of the asset and Revenue Expenditure Funded from Capital under Statute over the period that the authority benefits from the expenditure. The account will also record the resources set aside to finance capital expenditure.

Capital Charges
represent the cost to services for the use of non-current assets in the provision of their services; the charges reflect depreciation and impairment.

Capital Contributions/Grants
are monies received from external bodies towards the financing of capital expenditure on a particular service or scheme.

Capital Expenditure (Outlay)
is on the acquisition of a non-current asset that will be used to provide services beyond the current accounting period or expenditure that adds value to an existing non-current asset.

Capital Discharged
is the extent to which capital expenditure has been met over a period by charging instalments to the revenue account, including the direct financing of expenditure in the year of acquisition.

Capital Financing Charges
represent, in the main, the cost to the Capital Financing Reserve of repaying loans, excluding interest, or the direct cost of acquiring assets, etc., in the year.

Capital Programme
is a financial summary of the capital schemes that the Council intends to carry out over a specified time period.

Capital Receipts
are the proceeds from the sale of capital assets; they are available to repay debt on existing assets and/or to finance new capital expenditure within rules set by the Government.

Cash Equivalents
are short-term highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Cash Flow Statement
summarises the inflows and outflows of cash arising from transactions with third parties for both revenue and capital purposes.

Cash Limited Budgets
are fixed sums of money, including allowances for pay and price increases, allocated to services, and within which all spending should be met; this also involves flexibility in the carrying forward of under and over-spendings.

Central Government Grants
comprise three types:

- Grants paid by central government to aid local authority services in general, as opposed to specific grants, which may only be used for a specific purpose.
- Specific service grants – grants in aid of services in which central government have a more direct

involvement.
- Supplementary grants – grants in aid of both capital and revenue

CIPFA
is the Chartered Institute of Public Finance and Accountancy.

Code
is the Code of Practice of Local Authority Accounting that is generally based upon those accounting principles that are incorporated within approved accounting standards, modified to reflect the statutory framework in which local authorities operate. The Code states which accounts should be published as part of the Statement of Accounts, and the information to be included in each account.

Collection Funds
are separate funds recording the expenditure and income relating to council tax and non-domestic rates.

Collection Fund Adjustment Account
The Collection Fund Adjustment Account represents the Council's share of the Collection Fund Surplus or Deficit.

Community Assets
are those assets held in perpetuity and which have no determinable useful life and there are often restrictions regarding their sale. Examples of South Somerset's community assets are Ninesprings and land at Ham Hill.

Component Accounting
is when significant components of non-current assets are depreciated separately over their useful life.

Comprehensive Income and Expenditure Statement (CIES)
consolidates all the gains and losses experienced by an authority during the financial year.

Consistency
is one of the fundamental accounting concepts. It requires accountants to treat similar items of income and expenditure the same way - both within an accounting period and from one accounting period to the next.

Corporate and Democratic Core
comprises all activities which local authorities engage in specifically because they are elected, multi-purpose authorities. The cost of these activities are thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

Creditors
are amounts of money the Council owes to others for goods and services that they have supplied in the accounting period but not paid for.

Debtors
are amounts of money others owe to the Council for goods and services that they have received but have not paid for by the end of the accounting period.

Depreciation
is a charge made to the revenue account each year that reflects the reduction in the value of land, property, plant, ICT equipment and machinery used to deliver services.

Derecognition
is the term used for the removal of a financial instrument from the balance sheet. This will normally occur when the contractual rights to the cash flows arising from the instrument expire or are transferred.

Earmarked Revenue Reserves
are amounts set aside from revenue to meet particular spending needs, including funding capital projects.

Easement

is a charge made for access rights over land owned by the Council.

Effective Interest Rate
is the rate of interest that will discount all the cash flows that will take place throughout the expected life of a financial instrument down to the fair value of the instrument calculated at initial measurement.

Emoluments
are the cash payments or payments in kind an employee is entitled to. Pension contributions are not an emolument.

Employment Costs
are the salaries and wages etc., of staff including expenditure on training and the costs of redundancy.

Eurobonds
are debt contracts which records the borrowers' obligation to pay interest at a given rate and the principal amount of the bond specific dates.

Fair Value (Financial Instruments)
is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction. If available, this will be a published price quotation in an active market; otherwise, alternative valuation techniques will be employed.

Fair Value (Tangible Assets)
is the price at which an asset could be exchanged in an arm's-length transaction less, where applicable, any grants receivable towards the purchase of use of that asset.

Fair Value through Profit and Loss (FVPL)
is an accounting method for financial assets, all gains and losses including changes in fair value are taken to the Comprehensive Income and Expenditure Statement. Assets are "marked to market" and shown at fair value on the balance sheet, but the impairment model does not apply.

Fees and Charges
are the income raised by charging for the use of facilities or services.

Finance Leases
are those leases which transfer substantially the benefits and risks of ownership of the asset that is being leased to the party who is leasing the asset.

Financial Instruments
are any contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another. In practice these include bank deposits, loans, investments, borrowings and other receivables or payables.

Financial Instruments Adjustment Account
is the account which holds the differences between the amounts credited to the Comprehensive Income and Expenditure Statement in accordance with the Code and the interest income required to be credited to the General Fund in accordance with statutory regulations relating to amortization on the discount of the early redemption of PWLB loans.

Financing Transactions
relate, in the main, to interest payments and receipts associated with the management during the year of the Council's cash flow and reserves.

General Fund Balance
compares the Council's spending against the Council Tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

Gilt
is a bond issued by the government which offers the investor a fixed interest rate for a predetermined set time.

Housing Benefits

is the national system for giving financial assistance to individuals towards certain housing costs. The Council administers the scheme for South Somerset residents. The Government subsidizes the cost of the service.

Impairment
is the reduction in the value of a non-current asset as shown in the balance sheet to reflect its true value.

Income
is the amount which the Council receives, or expects to receive, from any source; service committee revenue income includes grants, sales, rents and fees and charges.

Infrastructure
are those assets which do not have a realizable value and include roads and footpaths.

Intangible Assets
are assets that do not have physical substance but are controlled by the Council as a result of a past event.

Internal Service Recharge
Is a recharge from a department that provides professional and administrative support to other internal services.

IFRS
is an International Financial Reporting Standard advising the accounting treatment and disclosure requirements of transactions so that an authority's accounts 'present fairly' the financial position of the authority.

Investment
is the lending of surplus money to another party in exchange for interest.

Liability
must be included in the financial statements when the Council owes money to others. There are different types of liability: -

- A current liability is a sum of money that will or might be payable during the next accounting period. e.g. creditors or cash overdrawn.
- A deferred liability is a sum of money that will not be payable until some point after the next accounting period or is paid off over a number of accounting periods.

Liquid Resources
are current assets which are readily convertible into cash at, or close to its carrying amount.

Loans and Receivables
are financial instruments that have fixed or determinable payments and are not quoted in an active market.

Long-term Investments
are those which are intended to be held on a continuous basis for the activities of the authority.

Materiality
is one of the main accounting concepts. It ensures that the statement of accounts includes all the transactions that, if omitted, would lead to a significant distortion of the financial position at the end of the accounting period.

Minimum Revenue Provision
is the sum required to be met from revenue under current capital controls to provide for the repayment of outstanding borrowings; additional sums may be voluntarily set aside.

Money Market Funds
are short term deposits that are deposited into a mutual fund that buys securities.

Movement in Reserves Statement (MIRS)
shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' and 'unusable reserves'.

National Non-Domestic Rate (NNDR) Income (also known as Business Rates)
Business Rates are collected locally, some of which is retained, and some is paid to Somerset County Council, Devon & Somerset Fire and Rescue, Central Government and Mendip District Council as lead authority of the Somerset Pool

Net Book Value
is the Balance Sheet amount of non-current assets and represents their historical cost or current replacement value less cumulative depreciation provisions.

Net Current Replacement Cost
is the cost of replacing an asset in its existing condition and use.

Net Realizable Value
is the open market value of an asset in its existing use net of the potential expenses of sale.

New Homes Bonus
is a grant paid by central government to local councils for increasing the number of homes and their use. The New Homes Bonus is paid each year for four years. It is based on the amount of extra Council Tax revenue raised for new build homes, conversions and long-term empty homes brought back into us. There is also an extra payment for providing affordable homes.

Non-Current Asset
is an item of worth which is measurable in monetary terms and provides benefit for more than the period of account – see also Capital Expenditure.

Non-Current Asset Held for Sale
is a non-current asset that becomes available for sale and it is probable that the carrying amount of that asset will be recovered through a sale transaction rather than though its continuing use.

Non-operational Assets
are those assets which are not directly used in the provision of services and mainly comprise those assets which are surplus to requirements and held pending disposal.

Operational Assets
are those assets e.g. land and buildings, used in the direct provision of services.

Operating Leases
are all leases which are not finance leases.

Other Operating Costs
includes expenditure on buildings, fuel, light, rent, rates, and purchase of furniture and equipment.

Pooled Fund Adjustment Account
is the adjustment account introduced to manage the fair value process for Pooled Fund Financial Assets. It is permitted to have a negative value provided that the losses posted to it are not impairment losses.

Precept
is the means by which Somerset County Council; Avon and Somerset Police Authority; Devon and Somerset Fire and Rescue Authority and the parishes obtain their revenue income from the District Council's Collection Funds.

Provisions
are amounts set aside to meet costs which are likely or certain to be incurred, but are uncertain in value or

timing.

PWLB
is the Public Works Loan Board, a Government agency which lends money to the public sector.

Prudence
is one of the main accounting concepts. It ensures the Council only includes income in its accounts if it is sure it will receive the money.

Rateable Value
is the annual assumed rental value of a property that is used for business purposes.

Related Parties
are when at any time during the financial period: -

- One party has direct or indirect control of the other party
- The parties are subject to common control from the same source
- One party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing its own interests
- The parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own interests.

Related Party Transaction
is the transfer of assets or liabilities, or the performance of services by, to or for a related party irrespective of whether or not a charge is made.

Remuneration
includes taxable salary payments to employees, together with non-taxable payments on termination of employment (including redundancy, pension enhancement payments, and pay in lieu of notice), taxable expense allowances and any other taxable benefits.

Reserves
result from the accumulation of surpluses, deficits and appropriations over past years. Reserves of a revenue nature are available and can be spent or earmarked at the Council's discretion.

Residual Value
is the value of an asset at the end of its useful life.

Revaluation Reserve
is a reserve which records the unrealised revaluation gains arising since 1 April 2007 from holding non-current assets.

Revenue Expenditure
is the day to day spending on salaries, maintenance of assets, purchase of stationery etc. after deducting income such as fees and charges.

Revenue Expenditure Funded Capital under Statute
are capital grants made by the Council to another organization or person. This counts as capital expenditure but it does not create an asset that belongs to the Council. The expenditure is charged to the balance sheet, but it is then reversed out through the Capital Adjustment Account to the revenue account.

Revenue Support Grant
is a general grant paid by the Government to local authorities as a contribution towards the cost of their services.

Slippage
is the term used mainly to describe capital payments occurring in later financial years than originally planned.

Usable Reserves
are reserves that can be applied to fund expenditure or reduce local taxation.

Contact Details for Further Information

For more information, please contact us at:

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Audit Committee Forward Plan

Lead Officer: *Kelly Wheeler, Case Services Officer*
Contact Details: *Kely.wheeler@southsomerset.gov.uk or 01935 462038*

Purpose of the Report

This report informs Members of the agreed Audit Committee Forward Plan.

Recommendation

Members are asked to comment upon and note the proposed Audit Committee Forward Plan as attached.

Audit Committee Forward Plan

The forward plan sets out items and issues to be discussed over the coming few months and is reviewed annually.

Items marked in italics are not yet confirmed.

Background Papers: *None*

Audit Committee Forward Plan

Committee Date	Item	Responsible Officer
24 Oct 19	Internal Audit Plan Progress Q2 Treasury Management Practices Treasury Management Mid-Year Performance and Strategy Update – Needs to go on to Full Council	Alastair Woodland (SWAP) Finance Specialist Finance Specialist
28 Nov 19	External Audit – Certification of Housing benefit Subsidy Claim External Audit – Annual Audit Letter Annual Fraud Programme Update	Finance Specialist (GT) Finance Specialist (GT) Legal Specialist
24 Jan 20	Internal Audit Plan Progress Q3 Treasury Management Strategy Statement 20/21 – Needs to go on to Full Council	Alastair Woodland (SWAP) Finance Specialist
26 Mar 20	Internal Audit Plan 2020/21 - approve 2020/21 plan Internal Audit – Charter External Audit Plan for 2019/20 Accounts External Audit Progress Report 2019/20 Accounts Annual Fraud Programme Update Health and Safety Update Report Civil Contingency update Whistleblowing update	Alastair Woodland (SWAP) Alastair Woodland (SWAP) Finance Specialist (GT) Finance Specialist (GT) Legal Specialist Director – Strategy & Support Services Director – Strategy & Support Services Director – Strategy & Support Services