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South Somerset District Council

Notice of Meeting

Audit Committee

Making a difference where it counts

Monday 29th September 2014

10.00 am

Main Committee Room
Council Offices
Brympton Way
Yeovil
BA20 2HT

(disabled access is available at this meeting venue)

The public and press are welcome to attend.

If you would like any further information on the items to be discussed, please ring the Agenda Co-ordinator, **Anne Herridge 01935 462570**, website: www.southsomerset.gov.uk

This Agenda was issued on Friday 19 September 2014.

Ian x. Clarke

Ian Clarke, *Assistant Director (Legal & Corporate Services)*

This information is also available on our website
www.southsomerset.gov.uk

INVESTORS IN PEOPLE

Audit Committee Membership

The following members are requested to attend the meeting:

Chairman: Derek Yeomans
Vice-chairman: Ian Martin

John Calvert	Roy Mills	John Richardson
John Dyke	Terry Mounter	Colin Winder
Tony Lock	David Norris	

South Somerset District Council – Council Plan

Our focuses are: (all equal)

- Jobs – We want a strong economy which has low unemployment and thriving businesses
- Environment – We want an attractive environment to live in with increased recycling and lower energy use
- Homes – We want decent housing for our residents that matches their income
- Health and Communities – We want communities that are healthy, self-reliant and have individuals who are willing to help each other

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.

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 Assistant Director – Finance and Corporate Services (S151 Officer), the Assistant Director – Legal and Corporate Services (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 held 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

The Council's Constitution is also on the web site and available for inspection in council offices.

Further information can be obtained by contacting the agenda co-ordinator named on the front page.

Audit Committee

Monday 29 September 2014

Agenda

Preliminary Items

1. Minutes

To approve as a correct record the minutes of the previous meeting held on Thursday 28^{th} August 2014.

2. Apologies for absence

3. Declarations of Interest

In accordance with the Council's current Code of Conduct (adopted July 2012), 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. A DPI is defined in The Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012 (SI 2012 No. 1464) and Appendix 3 of the Council's Code of Conduct. A personal interest is defined in paragraph 2.8 of the Code and a prejudicial interest is defined in paragraph 2.9.

4. Public question time

5. Date of the Next Audit Committee Meeting

The next scheduled meeting of the Audit Committee will be held on Thursday 23^{rd} October 2014 at 10.00am in the Main Committee Room, Council Offices, Brympton Way, Yeovil.

Items for Discussion

6. Treasury Management Strategy Statement and Investment Strategy 2014/15 - Mid year review. (Pages 1 - 26)

7. The Audit Findings Report (Pages 27 - 64)

8. Summary Statement of Accounts 2013 -14 (Pages 65 - 69)

9. Approve Annual Statement of Accounts 2013-14 (Pages 70 - 159)

10. Audit Committee Forward Plan 2014/15 (Page 160)

Treasury Management Strategy Statement and Investment Strategy 2014/15 – Mid year review

Executive Portfolio Holder:	*Councillor Tim Carroll*
Assistant Director	*Donna Parham, Assistant Director – Finance and Corporate Services*
Service Manager	*Amanda Card, Finance Manager*
Lead Officer:	*Karen Gubbins, Principal Accountant – Exchequer*
Contact Details:	*donna.parham@southsomerset.gov.uk or (01935) 462225*

Purpose of the Report

This report has been prepared for Audit Committee who has been tasked with the scrutiny of treasury management to carry out a mid-year review of the Treasury Management strategy and to recommend it to full Council.

Recommendation(s)

(a) Carry out the mid-year review of the Treasury Management Strategy and recommend it to Council. (Strategy attached with the amendments highlighted)

Introduction

In March 2011 the Authority adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year.

In addition, the Department for Communities and Local Government (CLG) issued revised Guidance on Local Authority Investments in March 2010 that requires the Authority to approve an investment strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the CLG Guidance.

The Authority has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

Background

The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators (PIs) on an annual basis. The TMSS also includes the Annual Investment Strategy (AIS) that is a requirement of the CLG's Investment Guidance.

CIPFA has defined Treasury Management as:

> *"the management of the organisation's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Audit Committee and for the execution and administration of treasury management decisions to the Assistant Director (Finance and Corporate Services) who will act in accordance with the organisation's policy statement and TMPs and CIPFA's standard of Professional Practice on Treasury Management.

The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Specific treasury management risks are identified in the Council's approved Treasury Management Practices. The risks include:

- Liquidity Risk (Adequate cash resources)
- Market or Interest Rate Risk (Fluctuations in the value of investments).
- Inflation Risks (Exposure to inflation)
- Credit and Counterparty Risk (Security of Investments)
- Refinancing Risks (Impact of debt maturing in future years).
- Legal & Regulatory Risk (Compliance with statutory and regulatory requirements).

The Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy; this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

When the strategy for 2014/15 was written it took into account the Council's current treasury position and the approved Prudential Indicators and drew upon the forecasts for interest rates provided by the Council's treasury advisers. This has been amended with the most recent forecast provided by the Council's treasury advisers.

The Strategy is attached at Appendix 1 and is split into the following main areas:

- Background
- Credit Outlook and Interest Rate Forecast
- Balance Sheet and Treasury Position
- Borrowing Requirement and Strategy
- Investment Policy and Strategy
- Policy on use of financial Derivatives
- Balanced Budget Requirement
- 2014/15 MRP Statement
- Monitoring and Reporting on Treasury Management
- Other Items

Financial Implications

There are no additional financial implications in reviewing the attached treasury management strategy.

Background Papers: *Cipfa Treasury Management Code of Practice*
Treasury Management Practices

Appendix 1

South Somerset District Council
Treasury Management Strategy Statement and Investment Strategy 2014/15

Contents

Appendices

1. Background

1.1 The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators (PIs) on an annual basis. The TMSS also includes the Annual Investment Strategy (AIS) that is a requirement of the CLG's Investment Guidance.

1.2 CIPFA has defined Treasury Management as:

"the management of the organisation's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

1.3 The Council adopts the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the Code), as described in Section 5 of the Code.

1.4 Accordingly, the Council will create and maintain, as the cornerstones for effective treasury management:-

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activies

- Suitable treasury management practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

1.5 Full Council will receive reports on its treasury management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close.

1.6 The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Audit Committee and for the execution and administration of treasury management decisions to the Assistant Director (Finance and Corporate Services) who will act in accordance with the organisation's policy statement and TMPs and CIPFA's standard of Professional Practice on Treasury Management.

1.7 The Council nominates Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

1.8 This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

1.9 This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

1.10 The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Authority's investments followed by the yield earned on investments remain important but are secondary considerations.

1.11 The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.

1.12 The Council is responsible for its treasury decisions and activity. No treasury management activity is without risk. The successful identification, monitoring and control of risk is an important and integral element of its treasury management activities. The main risks to the Council's treasury activities are:

- Liquidity Risk (Adequate cash resources)
- Market or Interest Rate Risk (Fluctuations in the value of investments)
- Inflation Risk (Exposure to inflation)
- Credit and Counterparty Risk (Security of Investments)
- Refinancing Risk (Impact of debt maturing in future years)
- Legal & Regulatory Risk (Compliance with statutory and regulatory requirements)

2. Credit Outlook and interest rate forecast

2.1 The credit risk of banking failures has reduced but is not completely absent. Regulatory changes are happening in the UK, US and Europe to move away from the bank bail-outs of previous years to bank resolution regimes in which shareholders, bond holders and unsecured creditors are 'bailed in' to participate in any recovery process. There are also proposals for EU regulatory reforms to Money Market Funds which will, in all probability, result in these funds moving to a VNAV (variable net asset value) basis and losing their 'triple A' credit rating wrapper. Diversification of investments between creditworthy counterparties to mitigate bail-in risk will become even more important in the light of these developments.

2.2 The Arlingclose interest rate forecast is for the Bank Rate to remain flat until late 2016, the risk to the upside (i.e. rates being higher) are weighted more heavily towards the end of the forecast horizon, as the table on page 18 shows. Gilt yields are expected to rise over the forecast period with medium- and long-dated gilts expected to rise by between 0.7% and 1.1%.

2.3 The economic and interest rate forecast provided by the Authority's treasury management advisor is attached at Appendix C. The Authority will reappraise its strategies from time to time in response to evolving economic, political and financial events.

3. Balance Sheet and Treasury Position

3.1 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The estimates, based on the current Revenue Budget and Capital Programmes, are set out below:

	31/03/14 Actual £'000	31/03/15 Estimate £'000	31/03/16 Estimate £'000	31/03/17 Estimate £'000
CFR	9,624	9,260	9,191	9,167
Usable Capital Receipts	(36,396)	(29,835)	(29,119)	(28,387)
Balances & Reserves	(14,143)	(14,337)	(13,518)	(13,312)
Net Balance Sheet Position **	**(40,915)**	**(34,912)**	**(33,446)**	**(32,532)**

*****excluding working capital.***

3.2 The Council's level of physical debt and investments is linked to these components of the Balance Sheet. The current portfolio position is set out at Appendix A. Market conditions, interest rate expectations and credit risk considerations will influence the Council's strategy in determining the borrowing and investment activity against the underlying Balance Sheet position.

3.3 As the CFR represents the underlying need to borrow and revenue expenditure cannot be financed from borrowing, net physical external borrowing should not exceed the CFR other than for short term cash flow requirements.

3.4 CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. The Council does not have external borrowing nor is the Council expecting to borrow in 2014/15 and therefore complies with this recommendation during the year.

3.5 The estimate for interest payments in 2014/15 is nil and for interest receipts is £333,840

4. <u>Borrowing Requirement and Strategy</u>

4.1 Treasury management and borrowing strategies in particular continue to be influenced not only by the absolute level of borrowing rates but also the relationship between short and long term interest rates. The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

4.2 The Council's strategy is to maintain maximum control over any potential long term borrowing activities as well as flexibility on its loans portfolio. Capital expenditure levels, market conditions and interest rate levels will be monitored during the year in order to minimize borrowing costs over the medium to longer term (should SSDC decide to borrow). A prudent and pragmatic approach to borrowing will be maintained to minimise borrowing costs without compromising the longer-term stability of the portfolio, consistent with the Council's Prudential Indicators. In addition, the Authority may borrow short-term loans (normally for up to one month) to cover unexpected cash flow shortages

4.3 In conjunction with advice from its treasury advisor, Arlingclose Ltd, the Council will keep under review the following borrowing options:

- Internal
- Public Works Loan Board
- UK local authorities

- Any institution approved for investments (see below)
- Any other bank or building society authorised by the Prudential Regulation Authority to operate in the UK
- UK public and private sector pension funds (except the Somerset Pension Fund)
- Capital market bond investors
- Special purpose companies created to enable joint local authority bond issues
- Structured finance
- Leasing

4.4 The Council will undertake a financial options appraisal before any borrowing is made.

4.5 For any borrowing that may be undertaken in advance of need the Council will adopt the same rigorous policies and approach to the protection of capital as it does for the investment of its surplus balances.

5. Investment Strategy

5.1 Both the CIPFA Code and the CLG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk receiving unsuitably low investment income.

5.2 The Authority may invest its surplus funds with any of the counterparties in the following table, subject to the cash and time limits shown.

<table>
<tr><th colspan="2">Counterparty</th><th>Cash limit</th><th>Time limit †</th></tr>
<tr><td rowspan="7">Banks and other organisations and securities whose lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's is:</td><td>AAA</td><td rowspan="7">£4m each</td><td>10 years*</td></tr>
<tr><td>AA+</td><td>5 years*</td></tr>
<tr><td>AA</td><td>4 years*</td></tr>
<tr><td>AA-</td><td>3 years*</td></tr>
<tr><td>A+</td><td>2 years</td></tr>
<tr><td>A</td><td rowspan="2">1 year</td></tr>
<tr><td>A-</td></tr>
<tr><td colspan="2">The Authority's current account bank (Natwest) if it fails to meet the above criteria</td><td>£0.5m</td><td>next day</td></tr>
<tr><td colspan="2">UK Central Government (irrespective of credit rating)</td><td>unlimited</td><td>50 years**</td></tr>
<tr><td colspan="2">UK Local Authorities (irrespective of credit rating)</td><td>£4m each</td><td>10 years</td></tr>
<tr><td colspan="2">UK Registered Providers of Social Housing whose lowest published long-term credit rating is A- or higher</td><td>£4m each</td><td>10 years**</td></tr>
<tr><td colspan="2">UK Registered Providers of Social Housing whose lowest published long-term credit rating is BBB- or higher and those without credit ratings</td><td>£3m each</td><td>5 years</td></tr>
<tr><td colspan="2">UK Building Societies without credit ratings</td><td>£1m each</td><td>1 year</td></tr>
<tr><td colspan="2">Money market funds and other pooled funds</td><td>£3m nominal each</td><td>n/a</td></tr>
</table>

Any other organisation, subject to an external credit assessment and specific advice from the Authority's treasury management adviser	£2m each	3 months
	£1m each	1 year
	£100k each	5 years

† the time limit is doubled for investments that are secured on the borrower's assets
* but no longer than 2 years in fixed-term deposits and other illiquid instruments
** but no longer than 5 years in fixed-term deposits and other illiquid instruments

5.3 There is no intention to restrict investments to bank deposits, and investments may be made with any public or private sector organisations that meet the above credit rating criteria. This reflects a lower likelihood that the UK and other governments will support failing banks as the bail-in provisions in the *Banking Reform Act 2014* and the EU *Bank Recovery and Resolution Directive* are implemented.

5.4 In addition, the Authority may invest with organisations and pooled funds without credit ratings, following an external credit assessment and advice from the Authority's treasury management adviser.

5.5 Registered Providers: Formerly known as Housing Associations, Registered Providers of Social Housing are tightly regulated by the Homes and Communities Agency and retain a high likelihood of receiving government support if needed. The Authority will consider investing with unrated Registered Providers with adequate credit safeguards, subject to receiving independent advice.

5.6 Building Societies: The Authority takes additional comfort from the building societies' regulatory framework and insolvency regime where, in the unlikely event of a building society liquidation, the Authority's deposits would be paid out in preference to retail depositors. The Authority will therefore consider investing with unrated building societies where independent credit analysis shows them to be suitably creditworthy. The Government has announced plans to amend the building society insolvency regime alongside its plans for wide ranging banking reform, and investments in lower rated and unrated building societies will therefore be kept under continuous review.

5.7 Money Market Funds: These funds are pooled investment vehicles consisting of money market deposits and similar instruments. They have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager. Fees of between 0.10% and 0.20% per annum are deducted from the interest paid to the Authority. Funds that offer same-day liquidity and aim for a constant net asset value will be used as an alternative to instant access bank accounts, while funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

5.8 Other Pooled Funds: The Authority will have cash balances available for investment over the medium term. It will therefore continue to use pooled bond, equity and property funds that offer enhanced returns over the longer term, but are potentially more volatile in the shorter term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

5.9 Other Organisations: The Authority may also invest cash with other organisations, for example by making loans to small businesses. Because of the higher perceived risk of unrated businesses, such investments may provide considerably higher rates of return. They will however only be made following a favourable external credit assessment and on the specific advice of the Authority's treasury management adviser.

5.10 Risk Assessment and Credit Ratings: The Authority uses long-term credit ratings from the three main rating agencies Fitch Ratings, Moody's Investors Service and Standard & Poor's Financial Services to assess the risk of investment default. The lowest available counterparty credit rating will be used to determine credit quality, unless an investment-specific rating is available. Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

5.11 Where a credit rating agency announces that a A- rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only overnight investments will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

5.12 Other Information on the Security of Investments: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

5.13 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

5.14 Specified Investments: The CLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:

- the UK Government,
- a UK local authority, parish council or community council, or
- a body or investment scheme of "high credit quality".

The Authority defines "high credit quality" organisations as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

5.15 Non-specified Investments: Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in the following table:

Non-Specified Investment Limits

	Cash limit
Total long-term investments (over 364 days)	£23m
Total investments without credit ratings or rated below A-	£5m *
Total investments in foreign countries rated below AA+	£4m
Total non-specified investments	£32m

*This limit will be reviewed in the event a change in EU legislation results in MMFs no longer being credit rated.

5.16 Investment Limits: The Authority's revenue reserves available to cover investment losses are forecast to be £4 million on 31st March 2014. South Somerset District Council has allocated a weighting of 25% to this risk, meaning that no more than 25% of available reserves (£1 million) will be put at risk in the case of a single default. The maximum that will be lent to any one organisation (other than the UK Government) will be £4 million. A group of banks under the same ownership or a group of funds under the same management will be treated as a single organisation for limit purposes. Limits will also be placed on investments in brokers' nominee accounts *(e.g. King & Shaxson)*, foreign countries and industry sectors as below:

Investment Limits

	Cash limit
Any single organisation, except the UK Central Government	£4m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£4m per group
Any group of pooled funds under the same management	£4m per manager
Negotiable instruments held in a broker's nominee account	£25m per broker
Foreign countries	£12m per country
Registered Providers	£8m in total
Building Societies	£8m in total
Loans to small businesses	£4m in total
Money Market Funds	£20m in total

5.17 Approved Instruments: The Authority may lend or invest money using any of the following instruments:

- interest-bearing bank accounts,
- fixed term deposits and loans,
- callable deposits and loans where the Authority may demand repayment at any time (with or without notice),
- callable deposits and loans where the borrower may repay before maturity, but subject to a maximum of £2 million in total,
- certificates of deposit,
- bonds, notes, bills, commercial paper and other marketable instruments, and
- shares in money market funds and other pooled funds.

5.18 Investments may be made at either a fixed rate of interest, or at a variable rate linked to a market interest rate, such as LIBOR, subject to the limits on interest rate exposures below.

5.19 Authority's Banker – The Council banks with National Westminster Bank which is currently rated above the minimum A- rating in the table under paragraph 5.2. Should the credit ratings fall below A-, Natwest will continue to be used for short term liquidity requirements (overnight) and business continuity arrangements.

6 Policy on use of financial Derivatives

6.1 Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

6.2 The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

6.3 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

6.4 The local authority will only use derivatives after seeking expertise, a legal opinion and ensuring officers have the appropriate training for their use.

7. Balanced Budget Requirement

7.1 The Council complies with the provisions of S32 of the Local Government Finance Act 1992 to set a balanced budget.

8. 2014/15 MRP Statement

Background:

8.1 CLG's Guidance on Minimum Revenue Provision (issued in 2010) places a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to "have regard" to such Guidance under section 21(1A) of the Local Government Act 2003.

8.2 The broad aim of the CLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with the period over which the capital expenditure which gave rise to the debt provides benefits, or, in the case of borrowing supported by Revenue Support Grant, the aim is that MRP is charged over a period reasonably commensurate with the period implicit in the determination of that grant.

8.3 The CLG Guidance requires the Authority to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. Four options for prudent MRP provision are set out in the CLG Guidance. Details of each are set out below:

Option 1 – Regulatory Method:

8.4 This method replicates the position that would have existed under the previous Regulatory environment. MRP is charged at 4% of the Authority's underlying need to borrow for capital purposes, however this option allows a historical adjustment to take place that is beneficial to some authorities. This method can only be used for supported expenditure.

Option 2 – CFR Method:

8.5 This method simplifies the calculation of MRP by basing the charge solely on the authority's CFR but excludes the technical adjustments included in Option 1. The annual MRP charge is set at 4% of the CFR at the end of the preceding financial year. This method can only be used for supported expenditure.

Option 3 – Asset Life Method:

8.6 Under this method MRP is determined by the life of the asset for which the borrowing is undertaken. This can be calculated by either of the following methods:

(a) Equal Installments: where the principal repayment made is the same in each year,

or

(b) Annuity: where the principal repayments increase over the life of the asset.
The annuity method has the advantage of linking MRP to the benefits arising from capital expenditure, where these benefits are expected to increase over the life of the asset.

8.7 MRP commences in the financial year following that in which the expenditure is incurred or, in the year following that in which the relevant asset becomes operational. This enables an MRP "holiday" to be taken in relation to assets which take more than one year to be completed before they become operational.

8.8 The estimated life of the asset will be determined in the year that MRP commences and cannot be revised. However, additional repayments can be made in any year which will reduce the level of payments in subsequent years.

8.9 If no life can be reasonably attributed to an asset, such as freehold land, the life is taken to be a maximum of 50 years. In the case of freehold land on which a building or other structure is constructed, the life of the land will be treated as equal to that of the structure, where this would exceed 50 years.

8.10 In instances where central government permits revenue expenditure to be capitalised, the Statutory Guidance sets out the number of years over which the charge to revenue must be made.

Option 4 - Depreciation Method:

8.11 The deprecation method is similar to that under Option 3 but MRP is equal to the depreciation provision required in accordance with proper accounting practices to be charged to the Income and Expenditure account

MRP Policy for 2014/15:

8.12 It is proposed that for 2014/15 the Council adopts Option 3 – Asset Life Method. Option 3 enables the calculation of MRP to be aligned with the life of the asset. If it is ever proposed to vary the terms of this MRP Statement during the year, a revised statement will be made to Council at that time.

8.13 MRP in respect of leases brought on Balance Sheet under the International Financial Reporting Standards (IFRS) based Accounting Code of Practice will match the annual principal repayment for the associated deferred liability.

9. <u>Monitoring and Reporting on Treasury Management</u>

The scrutiny of the treasury management function is carried out by the Audit Committee who then make recommendations to Full Council. The Assistant Director (Finance and Corporate Services) will report to Council/Audit Committee on treasury management activity / performance as follows:

(a) Audit Committee will be responsible for the scrutiny of treasury management activity and practices.

(b) Audit Committee will review the Treasury Management Strategy Statement, Investment Strategy, MRP Statement, and Prudential Indicators twice per year and recommend them to Council for Approval

(c) Audit Committee will monitor Treasury Management activity quarterly and annually and will approve the Treasury Management Practices on an annual basis

(d) Full Council will receive the Treasury Management Strategy Statement, Investment Strategy, MRP Statement, and Prudential Indicators prior to the start of the financial year and a mid year review against the strategy approved for the year.

(e) The Council will produce an outturn report on its treasury activity no later than 30th September after the financial year end.

10. Other Items

Training

CIPFA's revised Code requires the Assistant Director (Finance and Corporate Services) ensures that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities.

Officers tasked with treasury management responsibilities are engaged in regular financial and treasury training through attendance at selective seminars/workshops and treasury courses.

Treasury Management Advisors

The Council appointed Arlingclose as its Treasury Advisers in 2005. The provision of treasury advisory services was formally re-tendered in autumn 2009 and Arlingclose was reappointed. Among the various services received is **advice** on capital financing, borrowing and investments appropriate to the Council's individual circumstances and objectives.

The Council monitors the service through measuring:

- The timeliness of advice
- The returns from investments
- The accuracy of technical advice
- Regular market testing
- Regular internal meetings to discuss performance
- Direct access to a nominated advisor
- The quality and content of training courses

However, this doesn't divest the Council from its responsibility of its treasury decisions.

APPENDIX A

EXISTING PORTFOLIO PROJECTED FORWARD

	31/03/13 Actual £'000	31/03/14 Actual £'000	31/03/15 Estimate £'000	31/03/16 Estimate £'000
External Borrowing: *Long-term liabilities* • *Finance Leases*	382	511	146	78
Total External Debt	382	511	146	78
Investments:				
• Short term Deposits	25,500	18,500	26,600	26,750
• Monies on call and Money Market Funds	4,810	7,690	5,028	5,035
• Long term Deposits	0	2,000	0	0
• Bonds	9,000	10,750	5,000	5,000
• Property Fund & Other pooled funds	0	4,000	2,000	2,000
Total Investments	**39,310**	**42,940**	**38,628**	**38,785**
(Net Borrowing Position)/ Net Investment position	**38,928**	**42,429**	**38,482**	**38,707**

PRUDENTIAL INDICATORS 2014/15 TO 2016/17

Background:

The Local Government Act 2003 requires the Authority to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Prudential Indicator 1 - Capital Expenditure:

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax. The approved expenditure for 2013/14 and the estimates of capital expenditure to be incurred for 2014/15 and future years are:

	2013/14 Approved £'000	2014/15 Approved £'000	2015/16 Estimate £'000	2016/17 Estimate £'000
Approved capital schemes	2,140	3,642	761	41
Reserve schemes	1,062	1,847	0	0
New Schemes for 2014/15 start		919	670	650
Total Expenditure	**3,202**	**6,408**	**1,431**	**691**

The figures in the later years are showing income streams. This is due to income already budgeted from previously approved schemes. This will change as anticipated capital projects are approved. Additional capital expenditure will also occur if new capital receipts are received and used to finance projects currently on the reserve list, as per the capital strategy.

Prudential Indicator 2 - Ratio of Financing Costs to Net Revenue Stream:

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure. This shows how much of the revenue budget is committed to the servicing of finance.

Estimates of the ratio of financing costs to net revenue stream for the 2014/15 and future years, and the approved figures for 2013/14 are:

Portfolio	2013/14 Approved £'000	2014/15 Approved £'000	2015/16 Estimate £'000	2016/17 Estimate £'000
Financing Costs*	(220)	(226)	(276)	(322)
Net Revenue Stream	17,955	17,541	18,107	18,237
%*	**(1.2)**	**(1.3)**	**(1.5)**	**(1.8)**

*Figures in brackets denote income through receipts or reserves.

The financing costs include interest payable, notional amounts set aside to repay debt, less, interest on investment income. The figures are in brackets due to investment income outweighing financing costs significantly for SSDC. This shows the extent that the Council is dependent on investment income.

Prudential Indicator 3 - Capital Financing Requirement:

The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. Estimates of the year-end capital financing requirement for the authority are:

	2013/14 Approved £'000	2014/15 Approved £'000	2015/16 Estimate £'000	2016/17 Estimate £'000
Opening CFR	9,499	9,374	9,260	9,191
Capital Expenditure	3,598	5,410	893	122
Capital Receipts*	(2,140)	(4,461)	(831)	(91)
Grants/Contributions*	(1,458)	(949)	(62)	(31)
MRP	(125)	(114)	(69)	(24)
Additional Leases taken on during the year	0	0	0	0
Closing CFR	**9,374**	**9,260**	**9,191**	**9,167**

*Figures in brackets denote financing through receipts or reserves.

Prudential Indicator 4 – Gross Debt and the Capital Financing Requirement:

The Council is also required to ensure that any medium term borrowing is only used to finance capital and therefore it has to demonstrate that the gross external borrowing does not, except in the short term exceed the total of capital financing requirements over a three year period. This is a key indicator of prudence.

	2013/14 Revised £'000	2014/15 Revised £'000	2015/16 Estimate £'000	2016/17 Estimate £'000
Borrowing	0	0	0	0
Finance leases	261	349	78	54
Total Debt	**261**	**349**	**78**	**54**

Total debt is expected to remain below the CFR during the forecast period

Prudential Indicator 5 - Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure:

The Council must set three years of upper limits to its exposure to the effects of changes in interest rates. As a safeguard, it must ensure that its limit would allow it to have up to 100% invested in variable rate investments to cover against market fluctuations. Overall the authority is aiming to keep within the following exposure to fixed rates as and when market conditions improve.

	2013/14 % Limit	2014/15 % Limit	2015/16 % Limit	2016/17 % Limit
Fixed	80	80	80	80
Variable	100	100	100	100

The Council must also set limits to reflect any borrowing we may undertake.

	2013/14 % Limit	2014/15 % Limit	2015/16 % Limit	2016/17 % Limit
Fixed	100	100	100	100
Variable	100	100	100	100

The indicator has been set at 100% to maximise opportunities for future debt as they arise.

Prudential Indicator 6 - Upper Limit for total principal sums invested over 364 days:

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

Upper Limit for total principal sums invested over 364 days	2013/14 Estimate £'000	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000
Between 1-2 years	25,000	25,000	25,000	25,000
Between 2-3 years	20,000	20,000	20,000	20,000
Between 3-4 years	10,000	10,000	10,000	10,000
Between 4-5 years	10,000	10,000	10,000	10,000
Over 5 years	5,000	5,000	5,000	5,000

The estimates are considerably higher than the actual balances held in previous years to ensure the Council has sufficient flexibility to deal with any unexpected events. **The overall limit for maturities of greater than 364 days will not exceed 70% of the portfolio.**

Prudential Indicator 7 – Credit Risk:

The Council considers security, liquidity and yield, in that order, when making investment decisions.

Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Council's assessment of counterparty credit risk.

The Council also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- Published credit ratings of the financial institution and its sovereign
- Sovereign support mechanisms
- Credit default swaps (where quoted)
- Share prices (where available)
- Economic Fundamentals, such as a country's net debt as a percentage of its GDP
- Corporate developments, news articles, markets sentiment and momentum
- Subjective overlay

The only indicators with prescriptive values remain to be credit ratings. The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average long-term credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment.

The Council targets a portfolio average long-term credit rating of 'A' or higher. (This target rating is one notch above the Council's minimum rating criteria of A-.)

Other indicators of creditworthiness are considered in relative rather than absolute terms.

Prudential Indicator 8 - Actual External Debt:

This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Actual External Debt as at 31/03/2014	**£'000**
Borrowing	0
Other Long-term Liabilities	511
Total	**511**

Prudential Indicator 9 - Authorised Limit for External Debt:

The Council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Council and not just those arising from capital spending reflected in the CFR.

This limit represents the maximum amount that SSDC may borrow at any point in time during the year. If this limit is exceeded the Council has acted ultra vires. It also gives the Council the responsibility for limiting spend over and above the agreed capital programme. A £9.1m borrowing requirement has been identified to finance the capital programme and further borrowing may be undertaken to increase our borrowing to this level if and when it is the most cost effective way of funding SSDC's requirements. A ceiling of £12 million for each of the next three years is recommended, to allow flexibility to support new capital projects over and above the identified borrowing requirement.

	2013/14 Approved £'000	**2014/15 Approved £'000**	**2015/16 Estimate £'000**	**2016/17 Estimate £'000**
Borrowing	11,000	11,000	11,000	11,000
Other Long-term Liabilities	1,000	1,000	1,000	1,000
Total	**12,000**	**12,000**	**12,000**	**12,000**

Prudential Indicator 10 – Operational Boundary for External Debt:

The Operational Boundary sets the limit for short term borrowing requirements for cash flow and has to be lower than the previous indicator, the authorised limit for external debt. A ceiling of £10 million is recommended for each of the next three years. The table overleaf shows that SSDC's current borrowing is well within this limit. This indicator more than covers the capital financing requirement.

The Assistant Director (Finance and Corporate Services) has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next Council meeting.

	2013/14 Approved £'000	2014/15 Approved £'000	2015/16 Estimate £'000	2016/17 Estimate £'000
Borrowing	9,200	9,200	9,200	9,200
Other Long-term Liabilities	800	800	800	800
Total	**10,000**	**10,000**	**10,000**	**10,000**

Prudential Indicator 11 - Maturity Structure of Fixed Rate borrowing:

This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

Maturity structure of fixed rate borrowing	2013/14 % Actual	2014/15 % Estimate	Lower Limit %	Upper Limit %
Under 12 months	0	0	0	100
12 months and within 24 months	0	0	0	100
24 months and within 5 years	0	0	0	100
5 years and within 10 years	0	0	0	100
10 years and within 20 years	0	0	0	100
20 years and within 30 years	0	0	0	100
30 years and within 40 years	0	0	0	100
40 years and within 50 years	0	0	0	100
50 years and above	0	0	0	100

As the council doesn't have any fixed rated external borrowing at present the above upper and lower limits have been set to allow flexibility to borrow within any of the maturity bands.

Prudential Indicator 12 - Incremental Impact of Capital Investment Decisions:

This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the proposed capital programme.

Incremental Impact of Capital Investment Decisions	2014/15 Estimate £	2015/16 Estimate £	2016/17 Estimate £

Increase in Band D Council Tax	0.04	0.15	0.17

Prudential Indicator 13 - Adoption of the CIPFA Treasury Management Code:

This indicator demonstrates that the Council has adopted the principles of best practice.

Adoption of the CIPFA Code of Practice in Treasury Management
The Council approved the adoption of the CIPFA Treasury Management Code at its Council meeting on 18th April 2002.

Arlingclose's Economic and Interest Rate Forecast

	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Official Bank Rate												
Upside risk	0.25	0.25	0.25	0.50	0.25	0.50	0.50	0.50	0.50	0.75	0.75	1.00
Arlingclose Central Case	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50
Downside risk					0.25	0.25	0.50	0.50	0.75	0.75	1.00	1.00
3-month LIBID rate												
Upside risk	0.30	0.35	0.40	0.55	0.60	0.70	0.75	0.80	0.90	0.95	1.00	1.00
Arlingclose Central Case	0.50	0.55	0.60	0.65	0.85	1.00	1.15	1.25	1.40	1.50	1.65	1.70
Downside risk	0.05	0.10	0.15	0.20	0.30	0.40	0.55	0.65	0.75	-0.85	-1.00	-1.00
1-yr LIBID rate												
Upside risk	0.35	0.40	0.45	0.50	0.60	0.70	0.75	0.75	0.75	0.80	0.80	0.80
Arlingclose Central Case	0.90	0.95	1.00	1.05	1.20	1.35	1.45	1.55	1.65	1.70	1.80	1.90
Downside risk	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.55	-0.60	-0.65	-0.70	-0.75	-0.80
5-yr gilt yield												
Upside risk	0.40	0.50	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.05
Arlingclose Central Case	1.80	1.95	2.10	2.20	2.30	2.40	2.50	2.65	2.75	2.85	2.90	3.00
Downside risk	-0.30	-0.40	-0.50	-0.50	-0.60	-0.70	-0.75	-0.80	-0.85	-0.85	-0.85	-1.00
10-yr gilt yield												
Upside risk	0.45	0.50	0.60	0.70	0.75	0.90	1.00	1.00	1.00	1.00	1.00	1.05
Arlingclose Central Case	2.40	2.60	2.80	2.85	3.00	3.15	3.30	3.45	3.60	3.70	3.80	3.80
Downside risk	-0.40	-0.50	-0.55	-0.60	-0.70	-0.80	-0.90	-0.95	-1.00	-1.05	-1.10	-1.15
20-yr gilt yield												
Upside risk	0.50	0.60	0.75	0.85	0.90	0.95	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.00	3.20	3.40	3.55	3.65	3.70	3.75	3.80	3.85	3.90	3.95	3.95
Downside risk	-0.50	-0.55	-0.60	-0.60	-0.60	-0.60	-0.65	-0.70	-0.75	-0.80	-0.85	-0.90
50-yr gilt yield												
Upside risk	0.50	0.60	0.75	0.85	0.90	0.95	1.00	1.00	1.00	1.00	1.00	1.05
Arlingclose Central Case	3.05	3.20	3.35	3.50	3.65	3.75	3.85	3.95	4.00	4.00	4.05	4.10
Downside risk	-0.50	-0.55	-0.60	-0.60	-0.60	-0.60	-0.65	-0.70	-0.75	-0.80	-0.85	-0.90

Underlying assumptions:

- The UK economic recovery has continued apace and now appears more sustainable. GDP growth has averaged 0.8% per quarter since the middle of 2013.

- While still largely driven by household consumption, the large and continued rise in employment makes this position of less concern in the short term. On the back of strong consumption growth, business investment is recovering quickly, albeit from a low base, and should support continued expansion of GDP throughout this year.

- We expect consumption growth to slow later this year, alongside softening housing market activity and the subdued outlook for wage growth.

- Inflationary pressure is currently low and is likely to remain so in the short-term, notwithstanding commodity price shocks related to regional tensions. Despite a slight correction in the appreciation of sterling against the US dollar, imported inflation remains limited and will mitigate some of the effect of possible rises in $US-denominated commodity prices.

- Stronger economic growth has prompted MPC policymakers to deliver a less dovish message, but the MPC remains concerned about the sensitivity of the UK economy to a rise in Bank Rate. The MPC's focus is on both the degree of spare capacity in the economy and the rate at which this will be used up, factors prompting some debate on the Committee.

- Weak earnings growth continues to deteriorate with an annual decline of -0.2% in June despite large falls in unemployment, which poses a dilemma for the MPC. Our view is that spare capacity remains extensive. The levels of part-time, self-employment and underemployment are significant and indicate capacity within the employed workforce, in addition to the still large unemployed pool. Productivity growth can therefore remain weak in the short term without creating undue inflationary pressure.

- The lack of wage and inflationary pressures will be the main reasons policymakers are likely to hold off monetary tightening until later than markets are currently forecasting. They are nevertheless communicating the possibility of a rise in Bank Rate; an attempt, we believe, to prompt highly indebted businesses and households to manage and reduce their exposures to rising interest rates.

- The continuing repair of public and private sector balance sheets leave them sensitive to higher interest rates. The MPC clearly believes the appropriate level for Bank Rate for the post-crisis UK economy is significantly lower than the previous norm. We would suggest this is between 2.5 and 3.5%.

- Potential upside risks include a shift in relative monetary policy expectations between the UK and the US, and rises in commodity prices on the back of geo-political tensions.

Arlingclose Forecast:

- We forecast the first rise in official interest rates in Q3 2015, which is later than general market sentiment. There is clear momentum in the economy, but inflation is benign and currently sits below target. We expect this situation to persist for some time, reducing the need for immediate monetary tightening.
- We project a slow rise in Bank Rate. The pace of interest rate rises will be gradual and the extent of rises limited; we believe the normalised level of Bank Rate post-crisis to range between 2.5% and 3.5%.
- We continue to project gilt yields on an upward path through the medium term as the recovery takes hold, notwithstanding temporary volatility due to the UK General Election and other geo-political events.

Glossary of Terms

Balances and Reserves	Accumulated sums that are maintained either earmarked for specific future costs or commitments or generally held to meet unforeseen or emergency expenditure.
Bank Rate	The official interest rate set by the Bank of England's Monetary Policy Committee and what is generally termed at the "base rate". This rate is also referred to as the 'repo rate'.
Bond	A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The price of a bond may vary during its life.
Capital Expenditure	Expenditure on the acquisition, creation or enhancement of capital assets
Capital Financing Requirement (CFR)	The Council's underlying need to borrow for capital purposes representing the cumulative capital expenditure of the local authority that has not been financed.
Capital growth	Increase in the value of the asset (in the context of a collective investment scheme, it will be the increase in the unit price of the fund)
Capital receipts	Money obtained on the sale of a capital asset.
Credit Rating	Formal opinion by a registered rating agency of a counterparty's future ability to meet its financial liabilities; these are opinions only and not guarantees.
Collective Investment Schemes	Funds in which several investors collectively hold units or shares. The assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as 'Pooled Funds'). Unit Trusts and Open-Ended Investment Companies are types of collective investment schemes / pooled funds.
Corporate Bonds	Corporate bonds are bonds issued by companies. The term is often used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.
Corporate Bond Funds	Collective Investment Schemes investing predominantly in bonds issued by companies and supranational organisations.
CPI	Consumer Price Index. (This measure is used as the Bank of England's inflation target.)
Credit default swaps	Financial instrument for swapping the risk of debt default; the buyer effectively pays a premium against the risk of default.
Diversification / diversified exposure	The spreading of investments among different types of assets or between markets in order to reduce risk.
ECB	European Central Bank

Federal Reserve	The US central bank. (Often referred to as “the Fed”)
Floating Rate Notes	A bond issued by a company where the interest rate paid on the bond changes at set intervals (generally every 3 months). The rate of interest is linked to LIBOR and may therefore increase or decrease at each rate setting
Gilt	Is a fixed rate security issued as debt and repaid at a future date.
IFRS	International Financial Reporting Standards
Income Distribution	The payment made to investors from the income generated by a fund; such a payment can also be referred to as a ‘dividend’
Maturity	The date when an investment or borrowing is repaid
Money Market Funds (MMF)	Pooled funds which invest in a range of short term assets providing high credit quality and high liquidity.
Minimum Revenue Provision	An annual provision that the Authority is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets
Non-Specified Investments	Term used in the Communities and Local Government Guidance and Welsh Assembly Guidance for Local Authority Investments. It includes any investment for periods greater than one year or those with bodies that do not have a high credit rating, use of which must be justified.
Pooled funds	See Collective Investment Schemes (above)
Prudential Code	Developed by CIPFA as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice
Prudential Indicators	Indicators determined by the local authority to define the its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable; they are not intended to be comparative performance indicators
PWLB	Public Works Loans Board. It is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.
Revenue Expenditure	Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges
SI (Statutory Instrumeny)	Is the principal form in which delegated or secondary legislation is made in Great Britain.
SORP	Statement of Recommended Practice for Accounting (Code of Practice on Local Authority Accounting in the United Kingdom).

Specified Investments	Term used in the CLG Guidance and Welsh Assembly Guidance for Local Authority Investments. Investments that offer high security and high liquidity, in sterling and for no more than 1 year. UK government, local authorities and bodies that have a high credit rating.
Supranational Bonds	Instruments issued by supranational organisations created by governments through international treaties (often called multilateral development banks). The bonds carry a AAA rating in their own right. Examples of supranational organisations are the European Investment Bank, the International Bank for Reconstruction and Development.
Supported Capital Expenditure	The financing element of Capital expenditure that is grant funded by Central Government
Treasury Management Code	CIPFA's Code of Practice for Treasury Management in the Public Services
Temporary Borrowing	Borrowing to cover peaks and troughs of cash flow, not to fund spending.
Term Deposits	Deposits of cash with terms attached relating to maturity and rate of return (interest)
Unsupported Capital Expenditure	The financing of Capital expenditure is financed internally through the revenue budget
Yield	The measure of the return on an investment instrument

2013/14 Audit Findings Report

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Purpose of the Report

This report introduces Grant Thornton's Audit Findings Report for 2013/14.

Recommendation(s)

1. That the Audit Committee considers the matters raised in the report;

2. Note the draft audit findings as outlined in Section 2 and the one adjusted error and amended disclosure within the Statement of Accounts

3. Note the Value for Money criteria has been met.

4. Note the additional fee of £900 will be charged

5. Agree the recommended actions in Appendix A.

Background

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"

The Report

The report summarises the findings from the 2013/14 work of the Audit Commission relating to governance. It covers the following areas:

The Statement of Accounts/Annual Governance Statement

The Grant Thornton report gives an unqualified opinion on the financial statements for 2013/14. It also outlines that in all material respects the Council has complied with the requirements of IFRS (International Financial Reporting Standards), which were introduced for the 2010/11 accounts.

The report outlines one adjusted misstatement, one unadjusted misstatement and a disclosure changes.

The action plan outlines 6 actions. We have agreed to complete all of the recommended actions.

Value for Money

The Audit Commission is required to make a statement on whether the authority has made arrangements for securing economy, efficiency and effectiveness in its use of resources. This is now measured by two criteria as follows:

- Securing financial resilience;
- Challenge economy, efficiency and effectiveness.

The Audit Commission has assessed arrangements at SSDC meet the criteria.

Peter Lappin, the Audit Manager from the Audit Commission will be attending the meeting.

Fees

There is an additional fee of £900 in respect of work on material business rates balance. This additional work was necessary as auditors are no longer required to rcarry our work to certify NNDR3 claims.

Financial Implications

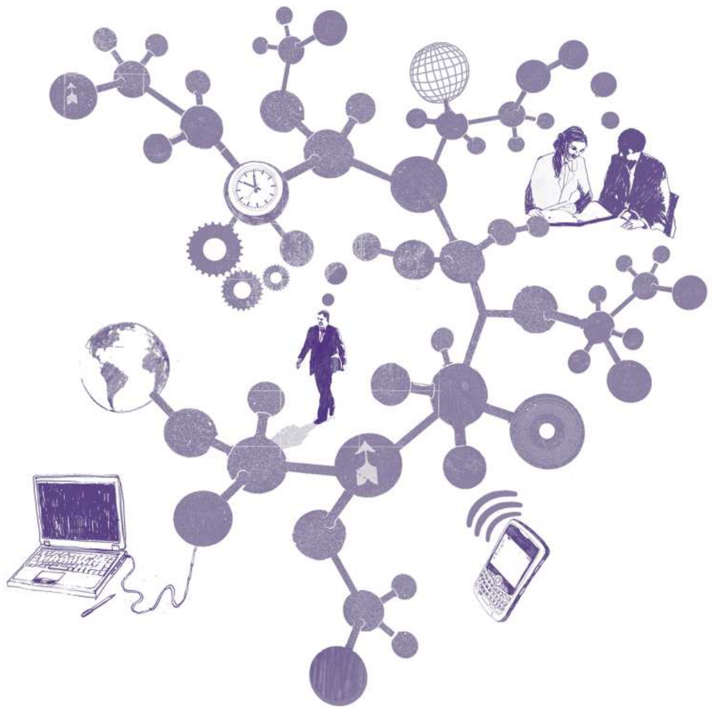
There are no financial implications associated with these recommendations.

Grant Thornton

The Audit Findings for South Somerset District Council

Year ended 31 March 2014

Audit Committee - 29 September 2014



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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 primarily 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 any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Contents

Section 1: Executive summary

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of South Somerset District Council's ('the Council') financial statements for the year ended 31 March 2014. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated 27 March 2014. At the time of drafting this report (16 September) our audit is progressing and we are finishing the work on

- Council tax and NNDR
- operating expenses
- Property Plant and Equipment and the disclosures that the Council will make about its judgement that the carrying values of assets are not materially different from the fair values (as the Council operates a rolling programme of revaluations)
- awaiting two confirmations from investees to complete bank and investments and assurances on valuations on long term investments.
- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Account return

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Key issues arising from our audit

Financial statements opinion

We have received an objection to the accounts for 2013/14 regarding:

- the legal costs of a planning application and
- the renegotiation of another planning obligation.

We are satisfied that both issues do not have a material impact on the financial statements for 2013/14. However, we have yet to determine the substance of the objection and this will be concluded after the issuing of the opinion. Consequently, the certificate closing the audit will be delayed.

We have not identified any adjustments affecting the Council's reported financial position but we identified a number of adjustments to improve the presentation of the financial statements.

The key messages arising from our audit of the Council's financial statements are:

- the Council implemented our recommendation from last year about including the investment in Lufton 2000 in its accounts
- the Council has separately disclosed the provisions for business rate appeals

Further details are set out in section 2 of this report.

- the Council included the additional disclosures that we suggested during the audit and corrected some minor typographical errors
- the financial statements were supported by a high standard of working papers in accordance with the agreed timetable supported by excellent assistance from the finance team.

Value for Money conclusion
We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VfM conclusion.

Further detail of our work on Value for Money is set out in section 3 of this report.

Whole of Government Accounts (WGA)
We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

Controls

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

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 any control weaknesses, we report these to the Council.

We draw your attention in particular to control issues identified in relation to:

- reconciliations of payroll control accounts
- evidence to support bank reconciliations
- refresh of the IT Security policy

Further details are provided within section 2 of this report.

The way forward

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Assistant Director (Finance and Corporate Services)

We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Assistant Director (Finance and Corporate Services) and the finance team.

Acknowledgment

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.

Grant Thornton UK LLP
September 2014

Section 2: Audit findings

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 27 March 2014. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 27 March 2014.

Audit opinion

We anticipate that we will provide the Council with an unmodified opinion. Our audit opinion is set out in Appendix B.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	**Improper revenue recognition** Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition	• review and testing of revenue recognition policies • testing of material revenue streams • review of unusual significant transactions	Our audit work has not identified any issues in respect of revenue recognition.
2.	**Management override of controls** Under ISA 240 there is a presumed risk of management over-ride of controls	• review of accounting estimates, judgements and decisions made by management • testing of journal entries • review of unusual significant transactions	Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues. We set out later in this section of the report our work and findings on key accounting estimates and judgements.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Creditors understated or not recorded in the correct period	We have undertaken the following work in relation to this risk: • Walkthrough tests of design and operation of controls • Initial substantive testing of Operating Expenses to underlying supporting documentation • Review and testing of creditors/liability balances of unusual and large amounts • Review of unrecorded liabilities and after date payments to ensure all liabilities identified	Our audit work has not identified any significant issues in relation to the risk identified.
Employee remuneration	Employee remuneration accrual understated	We have undertaken the following work in relation to this risk: • Walkthrough tests of design and operation of controls • Substantive testing of a sample of payroll payments throughout the year to underlying evidence • Agreement of payroll accruals to schedules and underlying evidence • Review of senior officers pay disclosures and agreement to underlying data • Analytical procedures over the payroll figures throughout the year to ensure that it is reasonable and complete • Reconciliation of the payroll system figures to the general ledger figures	Our audit work has not identified any significant issues in relation to the risk identified.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Welfare expenditure	Welfare benefit expenditure improperly computed	We have undertaken the following work in relation to this risk: • Walkthrough tests of design and operation of controls • Substantive testing of welfare expenditure will occur for the whole year to gain assurance over the welfare expenditure figures	• Our audit work has not identified any significant issues in relation to the risk identified.
Property, plant & equipment	PPE activity not valid	We have undertaken the following work in relation to this risk: • Walkthrough tests of design and operation of controls • Substantive testing of capital expenditure during the year	• The Council purchased five vans of £120K in total and incorrectly treated this expenditure as revenue. The vans were resold to a leasing company and these transactions was treated as revenue income. The vans were then leased to the Council.
Property, plant & equipment	Revaluation measurement not correct	We have undertaken the following work in relation to this risk: • Walkthrough tests of design and operation of controls • Substantive testing of revaluation adjustments	• Our audit work has not identified any significant issues in relation to the risk identified.

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Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or services. • 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 stocks on the balance sheet. • Works are charged as expenditure when they are completed, before which they are carried as works in progress on the balance sheet. • Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.	• The accounting policy is appropriate and complies with Code of Practice on Local Authority Accounting (the Code). • The disclosure of the accounting policy is adequate.	**GREEN** **Accounting Policy is appropriate and disclosures sufficient**
Revenue recognition	Council Tax income • The Council Tax income included in the Taxation and Non Specific Grant Income line in the Comprehensive Income and Expenditure Statement shall be the accrued income for the year. • This is calculated by taking the demand on the Collection Fund plus the authority's share of the carry forward surplus/deficit on the Collection Fund as at the 31st March 2014. This amount is then adjusted for the authority's share of the surplus/deficit at 31st March 2013 that has not been distributed or recovered in the current year.	• The Council will update this policy to reflect the council tax reduction scheme and the point at which income is recognised.	**GREEN** **Accounting Policy is appropriate and disclosures sufficient**

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Assessment

- ● Marginal accounting policy which could potentially attract attention from regulators
- ● Accounting policy appropriate but scope for improved disclosure
- ● Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	National Non-Domestic Rates (business rates) • The National Non-Domestic Rates income included in the Taxation and Non Specific Grant Income line in the Comprehensive Income and Expenditure Statement shall be the accrued income for the year. • This is calculated by taking the demand on the Collection Fund plus the authority's share of the carry forward surplus/deficit on the Collection Fund as at 31st March 2014. This amount is then adjusted for the authority's share of the surplus/deficit of 31st March 2013 that has not been distributed or recovered in the current year.	• The Council will update this policy to reflect the localisation of business rates and the point at which income is recognised.	**GREEN** Accounting Policy is appropriate and disclosures sufficient
Judgements and estimates	Key estimates and judgements include: • useful life of capital equipment • PPE revaluations and impairments • pension fund valuations and settlements • Provisions • accruals	• The estimates and judgements made by management are in line with the Code's expectations. • The pension fund valuations have been based on judgements and estimates from an independent actuary. • The estimates of asset valuations and asset lives are provided by an independent valuer.	**GREEN** Judgements and estimates are appropriate and disclosures sufficient

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Assessment
- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Judgements and estimates - PPE Page 42	**South Somerset's accounts** • Pages 41 – note 14 of the accounts set out the authority's rolling programme of revaluations. • This approach is similar to many other authorities and we are awaiting the Council's critical judgement to show that the carrying amount of Property, Plant and Equipment (based on these valuations) does not differ materially from the fair value at 31 March 2014. **Compliance with the Code** • In our view this rolling programme does not meet the Code's requirement in paragraph 4.1.2.35 to value all items within a class of property, plant and equipment simultaneously. • This paragraph of the Code, which is based on IAS 16 Property, Plant and Equipment, does permit a class of assets to be revalued on a rolling basis provided that: - the revaluation of the class of assets is completed within a '*short period'* - the revaluations are kept up to date	• In our view, we would normally expect this 'short period' to be within a single financial year. This is because the purpose of simultaneous valuations is to 'avoid reporting a mixture of costs and values as at different dates'. This purpose is not met where a revaluation programme for a class of assets straddles more than one financial year. Officers have judged that the Council's asset base is too large to revalue all assets in any one year. The Council should consider changing its programme to revalue the whole of certain classes of assets each year. • The Council will set out its consideration of why it believes that the carrying value of assets does not differ materially from the fair values	**AMBER** **Council to consider revaluing all assets within a class of Property, Plant and Equipment within a single financial year**
Other accounting policies	• We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	• Our review of accounting policies has not highlighted any issues which we wish to bring to your attention other than have already been highlighted in this report • Minor omissions were reported to management during the course of the audit.	**GREEN** **Judgements and estimates are appropriate and disclosures sufficient**

Assessment

- ● Marginal accounting policy which could potentially attract attention from regulators
- ● Accounting policy appropriate but scope for improved disclosure
- ● Accounting policy appropriate and disclosures sufficient

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the primary statements and the reported financial position.

	Detail	Comprehensive Income and Expenditure Account (CIES) £'000	Balance Sheet £'000	Impact on total net expenditure £000
1	The Council purchased 5 vans in 2013-14, which it then sold to a leasing company and subsequently leased back in an arrangement that constituted a finance lease. The initial purchase of the vans has been incorrectly expensed to revenue, with the subsequent receipt of money from the lease company netting the transaction in the Net Cost of Services to £nil. The Council has removed the transactions (income and expenditure from the CIES) Proper accounting treatment would have been to capitalise the vans, dispose of them upon their sale and then re-capitalise them with a corresponding liability upon the Council leasing them back. The current treatment has the effect of grossing up both income and expenditure by £119,621, although the effect on the Net Cost of Services is £nil. The transactions are currently shown under the 'Environmental and Regulatory Services' heading.	120		120
	Overall impact	**120**		**120**

Misclassifications & 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.

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Reclassification	950	Provisions	Provision for business rate appeals included within the collection fund but not as a separate provision within the notes to the account.
2	Disclosure	140	Leases (Note 42)	Testing identified that the disclosure in relation to the carrying value of assets held under a finance lease was incorrectly stated. The draft figure of £308k has been updated to the correct figure of £468k. Testing also identified a number of the prior year comparators in this note had not been updated from the 2011/12. They have subsequently been updated to match the figures in the 2012/13 signed financial statements.
3	Disclosure	150	Movement in Reserves Statement – Other Comprehensive Income and Expenditure 2013/14	Other Comprehensive Income and Expenditure - Unusable Reserves to be adjusted to (10,039) to agree with the Comprehensive Income and Expenditure Statement
4	Disclosure	580	Movement in Reserves Statement – Restated Balance at 31 March 2012	Total Usable Reserves restated balance at 31 March 2012 to be adjusted to £(47,884)K to include Joint Venture Reserve restated balance at 31 March 2012

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. 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.

These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
1.	AMBER Deficiency – risk of inconsequential misstatement	• Payroll suspense accounts are not routinely checked and reconciled. Control is intended to operate on a monthly basis. As at 4 Feb, three reconciliations had been completed (27 June and 2 September 2013, and 14 January 2014).	• The Council should regularly reconcile its payroll control accounts.
2.	AMBER Deficiency – risk of inconsequential misstatement	• Documentation and evidence supporting reconciliations to bank statements could be improved, particularly for the Main Account. We noted small discrepancies between the hardcopy and electronic reconciliations, and trivial unreconciled amounts due to timing issues.	• The Council should enhance the supporting evidence for the reconciliation of bank statements.
3.	AMBER Deficiency – risk of inconsequential misstatement	• The Council has an out of date IT Security Policy which was last refreshed in 2010 and has not been subject to regular review. • Without regular review, there is a risk that the policies and related procedures are no longer applicable to the needs and security requirements of the business, which may compromise the organisation's computing environment. • This was also raised as a finding in 2012/13.	• We recommend that management carries out a refresh of the IT Security policy at least every 12 months to take account of new technology advances and cyber related threats.

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Assessment

- Significant deficiency (Red) – risk of significant misstatement
- Deficiency (Amber) – risk of inconsequential misstatement

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	**Matters in relation to fraud**	• We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit.
2.	**Matters in relation to laws and regulations**	• We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	**Written representations**	• A letter of representation has been requested from the Council.
4.	**Disclosures**	• Our review found no material omissions in the financial statements
5.	**Matters in relation to related parties**	• We are not aware of any related party transactions which have not been disclosed
6.	**Going concern**	• Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.

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Section 3: Value for Money

Value for Money

Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

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

We are required to give our VFM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code. These criteria are:

The Council has proper arrangements in place for securing financial resilience - the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness - the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have considered the Council's arrangements to secure financial resilience against the following themes:

- Key financial performance indicators
- Financial governance
- Financial planning
- Financial control

Overall our work highlighted that the Council has managed its finances effectively. It has relatively high levels of reserves (as a percentage of gross expenditure) and it has managed its expenditure to achieve an underspend of £81K against its original budget, while delivering its savings targets.

Challenging economy, efficiency and effectiveness

We have considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints within which it is required to operate. The Council should make more use of benchmarking when setting targets, (please see comment about council tax collection rates). The Council monitors performance especially where there has been service redesign to ensure that the Council is still achieving its targets.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

Green	Adequate arrangements
Amber	Adequate arrangements, with areas for development
Red	**Inadequate arrangements**

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
Key indicators of performance. The most recent comparative data relates to 2012/13 but the Council's figures for 31 March 2014 have also been reported, although such information for other Councils is not yet available.	The Council has a relatively high working capital ratio (current assets divided by current liabilities) . At 14.4 in 2012/13 it was the highest in its comparator group but it has reduced in 2013/14 to 10.5 because the Council has started to reinvest again in long term investments. The Council has achieved significant underspends against its original and revised budgets in each of the past six years. The cumulative underspend in those six years against the original budgets was £2.4m. The original estimate in each of the past four years have been a more accurate predictor than the revised estimate of the final outturn. The Council has relatively high levels of usable reserves (53% of gross revenue expenditure), the highest in its comparator group. However, most of this balance £36.4m relates to capital receipts and capital grants which cannot be used to support day to day revenue expenditure. Days lost due to sickness at South Somerset had been consistently lower than the local government average over the period 2007/08 to 2011/12 but there was a significant increase in 2012/13, due to increased number of days lost to long term sickness. This rate has reduced from 11.49 in 2012/13 to 8.87 in 2013/14, although still above the Council's target of 8 days.	**Green**	**Green**

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
Key indicators of performance (continued)	South Somerset's collection rate for Council Tax in 2012/13 at 97.8% (District average 98.1%) placed the Council in the worst performing third of all district councils (worst 20% of statistical neighbours). In 2013/14, although the national average for Districts fell to 97.9%, South Somerset's collection rate fell by a greater percentage to 97.4%. The difference between South Somerset's performance and the District Council average is 0.5% which translates into £421K of uncollected Council Tax, of which £42K is South Somerset's share. The Council's target collection rate is 97% which is well below the performance that most other district councils are already achieving. The Council is currently reporting performance on Council Tax collection as green. On the other hand, the Council has turned around its performance on the collection of business rates. In 2012/13 it collected 96.4% of business rates and was in the worst 20% of NNDR collection rates of district councils in the country. In 2013/14 the Council's collection rates have increased to 98.8%, 0.5% above the national average for district councils. Overall, the Council's below average collection rates for Council tax do not alter the overall green for key indicators of performance.	Green	Green
Strategic financial planning	The Council annually produces a five-year Medium Term Financial Plan (MTFP). The MTFP covers financial issues that the Council will face during the five year period. The Council has developed a strategy for dealing with the financial difficulties it is facing which include: • Making annual savings • Managed use of balances • Partial use of new homes bonus • Council tax increase • Growth in business rates The current MTFP to Council in February shows a budget gap of almost £1m in 2015/16 At the same time last year (September 2013) the budget gap for 2014/15 had been £2.2m. The Council was able to close that larger budget gap for 2014/15, and the current gap for 2015/16 is not as great . The Council is already identifying further savings and additional income (such as the sub leasing accommodation) to reduce the budget shortfall for next year - 2015/16.	Green	Green

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The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
Financial governance	• The Management Board and District Executive clearly understand the financial environment in which they operate and there is regular communication with members regarding key changes to the financial environment such as localisation of Council tax benefits and the pooling of business rates. • The Medium Term Financial Plan and financial updates clearly set out the financial pressures facing the Council. • There is strong officer and member involvement in the budget setting process. Budget workshops are held as part of the process and include officers, members and external stakeholders. • There is regular budget reporting to the Management Board (monthly) and to the District Executive (quarterly). Reports show the original budget, revised budget and year end forecast for each service with an explanation of any variance. There are regular updates on budget virements and progress on major savings (with a report at the end of the year detailing the savings that have been achieved). • In 2012/13 we reported that the Council had achieved significant underspends against its original and revised budgets in each of the past 5 years. The cumulative underspend in those five years against the original budgets was £2.3m. In the past three years, the underspend against the revised budget had been greater than that recorded against the original budget. • In 2013/14 the Council reported that it had underspent on its original budget by £81K and its revised budget by £1,208K. This shows that the original budget has been a more accurate forecast than the revised budget of the final outturn in each of the past four years. • In 2013/14 there was an underspend of £2.7m on the original capital budget of £4.9m but the capital budget was reduced to £2.9m and the final outturn was £2.2m, an underspend of £661K.	Green	Green

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The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
Financial control	• In June 2014 the Council reported that it had achieved all of the £540K planned savings and that it had underspent on its original budget by £81K and its revised budget by £1,208K. This was another commendable performance to achieve an underspend and deliver the savings plans. • The Council reports on the delivery of its savings plans so that they can be monitored in addition to the overall budgetary position. • Internal Audit has completed its work programme and concluded that it could "…offer reasonable assurance in respect of the areas reviewed during the year, as the majority were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed…." • In 2012/13 we reported that internal audit was only able to offer partial assurance on the Council's risk management system and identified that there is insufficient review of the corporate risk register at senior management and Member level. • The Council responded to the action plan and the Audit Committee is receiving the key risks from the risk register, the mitigating action being taken and the responsible officer for the residual risk. In November 2013 Internal Audit undertook a follow up review and reported that a significant number of recommendations had been implemented and plans are in place to complete two of the three outstanding recommendations in the New year.	Green	Green

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
Prioritising resources	The Council has challenged delivery methods and considered alternative options, working with local authorities and other organisations for alternative ways of delivering services such as community and leisure trusts, and joint provision of services across local authorities. If has identified economic development as a key priority and invested in officer support to enable the Council to increase its impact in this area. The Chief Executive arranges budget roadshows to set out the key challenges facing the Council and the need to make savings and to encourage staff participation. The Management Board has agreed to look at cross cutting reviews as well as LEAN service reviews and work on the electronic document management project is being scoped. There are 5 areas for the Council to review and develop with the objective of significant savings and generation of additional income • income generation • asset rationalisation • procurement • transfer to 3rd parties • electronic document management / service redesign	**Green**	**Green**
Improving efficiency & productivity	The Council has adequate arrangements to monitor the implementation of spending reductions through regular budget monitoring and actions. There is evidence of how the Council monitors performance of services to ensure that reductions in spending don't adversely impact on Council priorities There are examples of joint working with other local authorities on Environmental Health and Licensing - delivering savings and service resilience. One of the most significant partnerships for South Somerset is the Waste Partnership and the Council has provided examples of how joint working and innovative ways of working with partners has reduced costs or improved services than had the Council worked alone. The LEAN process has generated significant savings from the redesign of services and the Council has monitored the impact of these changes on service delivery. The Council monitors key indicators of performance and there is scope to use benchmarking more effectively when setting targets (as seen earlier in the report about council tax collection rates).	**Green**	**Green**

To support our VfM conclusion against the specified criteria we performed a risk assessment against VfM risk indicators specified by the Audit Commission. and additional indicators identified by ourselves. Following completion of our work we noted the following residual risks to our VfM conclusion:

Residual risk identified	Summary findings	RAG rating
Key indicators of performance	South Somerset's collection rate for Council Tax in 2012/13 at 97.8% (District average 98.1%) placed the Council in the worst performing third of all district councils (worst 20% of statistical neighbours). In 2013/14, although the national average for Districts fell to 97.9%, South Somerset's collection rate fell by a greater percentage to 97.4%. The difference between South Somerset's performance and the District Council average is 0.5% which translates into £421K of uncollected Council Tax, of which £42K is South Somerset's share. The Council's target collection rate is 97% which is well below the performance that most other district councils are already achieving. The Council should set a target collection rate that is informed by performance already being achieved by other district councils. The Council is currently reporting performance on Council Tax collection as green.	**Amber**
Financial Governance	In 2012/13 we recommended that "…the Council needs to review the robustness of the process for producing revised estimates and identify the reasons for variances in the final quarter of the year…" In 2013/14 the Council reported that it had underspent on its original budget by £81K and its revised budget by £1,208K. This shows that the original budget had again been a more accurate forecast than the revised budget of the final outturn. However, the Council was predicting a £700k underspend in December 2013 . The Council accepts that although the original budget was more accurate than the revised budget, the Council was predicting an underspend through its budget monitoring process. The Council needs to address our recommendation from 2012/13.	**Amber**
Improving efficiency & productivity	The Council monitors its performance against targets across a range of indicators. It is not clear in light of our comments about council tax collection targets how the Council uses benchmarking when setting targets for service performance.	**Amber**

Section 4: Fees, non audit services and independence

Fees, non audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Per Audit plan £	Actual fees £
Council audit	64,801	65,701
Grant certification	12,200	*10,736
Total audit fees	**77,001**	**76,437**

'There is additional fee of £900 in respect of work on material business rates balances. This additional work was necessary as auditors are no longer required to carry out work to certify NNDR3 claims. The additional fee is 50% of the average fee previously charged for NNDR3 certifications for a district council and is subject to agreement by the Audit Commission.'

*The indicative fee for grant certification has been reduced from the plan because the housing benefit claim will not include council tax benefits following the introduction of the council tax local reduction scheme.

Fees for other services

Service	Fees £
None	Nil

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 Auditing Practices Board's Ethical Standards and therefore we confirm that we 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 Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The Council should set a target collection rate for Council Tax that is informed by performance already being achieved by other district councils. The Council should use benchmarking more effectively when setting targets for other indicators.	High	The Council will review the staffing levels in order to improve the collection rates. Debt collection work has increased by 38% since the introduction of the Council Tax Reduction Scheme and economic downturn.	Donna Parham March 2015
2	The Council needs to review the robustness of the process for producing revised estimates and identify the reasons for variances in the final quarter of the year.	Medium	The Council has improved budget forecasting over the past year and will look to better predict year end adjustments. The budget is revised only for carry forwards and additional commitments which are added into the budget. They tend not to be spent by year end and increase the underspend.	Donna Parham March 2015
3	The Council should regularly reconcile its payroll control accounts.	Medium	We undertake routine quarterly checks and these are ample. Most transactions are received electronically from payroll. Any manual interventions are as a result of changes in employee bank accounts which are very infrequent.	No change necessary
4	The Council should enhance the supporting evidence for the reconciliation of bank statements.	Medium	We will look into what other supporting evidence is available and how this can be best used.	Amanda Card December 2014

Appendix A: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
5	We recommend that management carries out a refresh of the IT Security policy at least every 12 months to take account of new technology advances and cyber related threats.	Medium	During the Lean process it was recommended that policies were reviewed every 3 years. However we appreciate that this still means the review period is out of date. The policy has been informally reviewed from time to time and as no high risk omissions were identified it was decided not to initiate a formal review process. The policy is now being formally reviewed.	Roger Brown December 2014
6	The Council should consider revaluing all assets within a class of Property, Plant and Equipment within a single financial year.	Medium	The Council will consider how the revaluation programme can be amended to comply with this aspect of the Code.	Amanda Card March 2015

Appendix B: Audit opinion

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH SOMERSET DISTRICT COUNCIL

Opinion on the Authority financial statements

We have audited the financial statements of South Somerset District Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and Collection Fund and the related notes. 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 2013/14.

This report is made solely to the members of South Somerset District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. 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.

Respective responsibilities of the Assistant Director (Finance and Corporate Services) and auditor

As explained more fully in the Statement of the Assistant Director's (Finance and Corporate Services) Responsibilities, the Assistant Director (Finance and Corporate Services) 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, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Assistant Director (Finance and Corporate Services); and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of South Somerset District Council as at 31 March 2014 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

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

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place 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.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those 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 2014.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, we are satisfied that, in all significant respects, South Somerset District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed our consideration of matters brought to our attention by local authority electors. We are satisfied that these matters do not have a material effect on the financial statements or a significant impact on our value for money conclusion.

Simon Garlick
Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Hartwell House
55-61 Victoria Street
BRISTOL
BS1 6FT

expected 29 September 2014

grant-thornton.co.uk

Summary Statement of Accounts

Strategic Director:	*Mark Williams, Chief Executive*
Assistant Director	*Donna Parham, Finance and Corporate Services*
Service Manager	*Amanda Card, Finance Manager*
Lead Officer:	*Amanda Card, Finance Manager*
Contact Details:	*amanda.card@southsomerset.gov.uk or 01935 462542*

Purpose of the Report

To ask Members of the Audit Committee to comment on the 2012/13 Summary of Accounts before publication.

Recommendation(s)

To comment on the 2013/14 Summary of Accounts.

Summary Accounts

The first Summary of Accounts was produced in 2004/05 and we have continued to simplify the summary. Although it is no longer a requirement for the Use of Resources judgement given by the Audit Commission, it is believed that having such a document would still be of benefit.

The key comments sought are in the following areas:

- Will members of the public understand the summary;
- Are the terms and wording easy to interpret;
- Are the areas of key financial performance outlined;
- General feedback on how it could be made more user friendly.

Financial Implications

The production of the summary of accounts can be financed within existing budgets. The Summary of Accounts will not be printed and distributed but will be a document accessible via the Council’s website.

Background Papers: *None*

South Somerset District Council

Summary of Accounts
2013/14

A simplified picture of the Council's 2013/14 Statement of Accounts

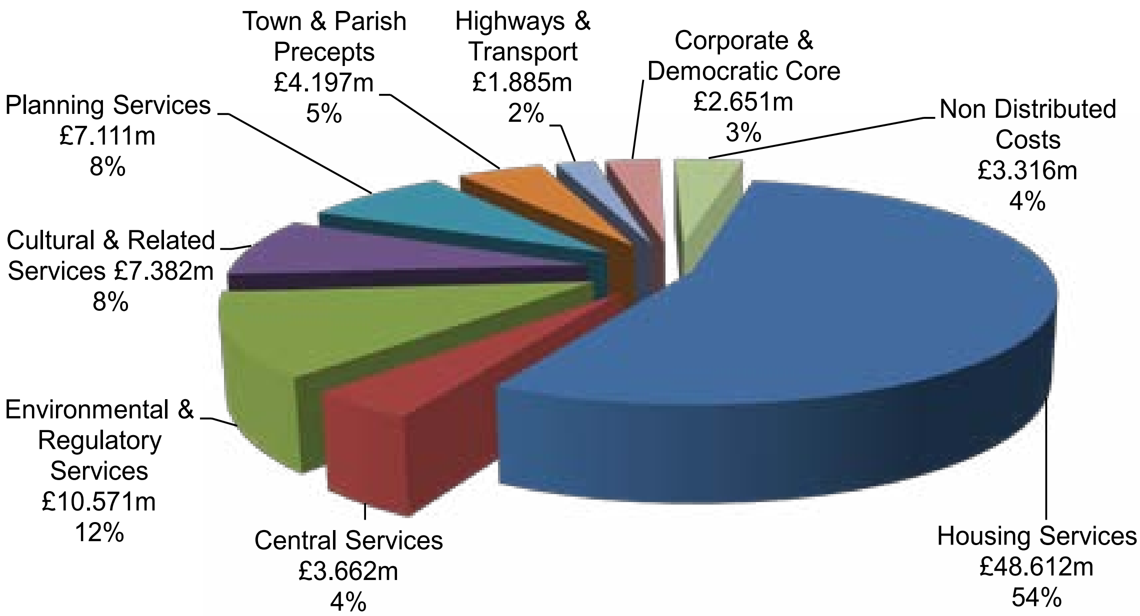
We would welcome any comments you have on the Summary of Accounts. Please call the number below or email accountancy@southsomerset.gov.uk

A full copy of the Council's 2013/14 accounts is available on request or from the Council's website - www.southsomerset.gov.uk Please telephone 01935 462462 if you wish to be sent a copy

Where the money goes:

We spent £89.387 million on running services. These costs are included in our revenue account, which shows the costs incurred between 1st April 2013 and 31st March 2014. This is summarised in the pie chart below:

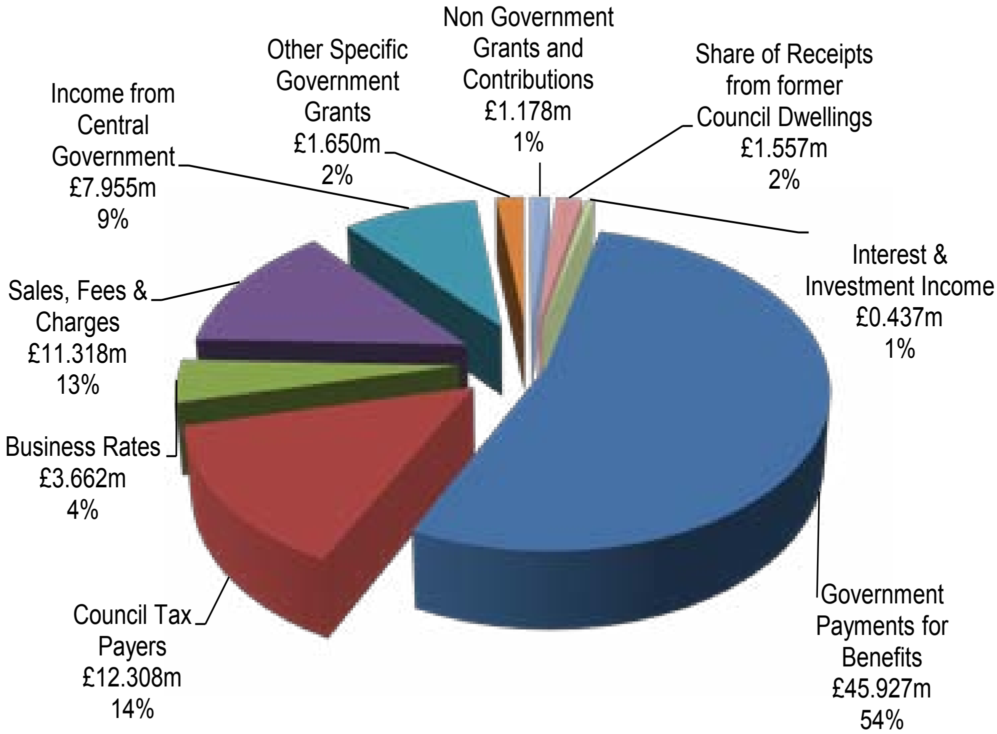
The revenue costs are those associated with the day-to-day spending of the Council eg. staff salaries, building maintenance and electricity. This is different to capital costs, which are detailed on the next page



Notes: Corporate & Democratic Core include the costs of the activities of Members in their democratic role and of providing the infrastructure to provide Council services. Non distributed costs includes costs that are unique to a local authority such as accumulated absences, and those costs not directly associated to a particular service eg. pension costs

Where the money comes from:

The chart below shows where South Somerset District Council obtained its gross income of £85.992 million during 2013/14.



The Government payments for Benefits are ringfenced for Benefit Payments that we make. This leaves £40.065 million available for expenditure on council services.

The rate of Business Rates per property is set by Central Government. SSDC collect this from local businesses. 50% is paid over to Central Government and then redistributed across the country based on the adult population. SSDC retained 40%, 9% is paid to Somerset County Council and 1% is paid to Devon & Somerset Fire & Rescue.

Deducting the income of £85.992 million from the expenditure of £89.237 million leaves a net deficit of £3.245 million.

Day to day spending

Capital Expenditure:

Capital Expenditure is long term investments made by the council on upgrading and improving assets such as buildings and purchasing vehicles. The following table outlines the capital expenditure incurred during 2013/14:

Type	**Description**	**2013/14 Actual £'000**
Finance & Corporate Services	Information technology systems	248
	Council-wide projects	169
	Total Finance and Corporate Services	**417**
Legal & Corporate Services	Payroll & HR system	29
	Total Legal & Corporate Services	**29**
Economy	Affordable Housing	217
	Buildings at Risk	6
	Total Economy	**223**
Communities	Market House, Castle Cary	323
	Other communities projects	204
	Area Committee projects	171
	Market Town Visions	21
	Foundry House, Yeovil	2
	Total Communities	**721**
Environment	Disabled Facilities Grants	487
	Empty property & HMO grants & home repairs assistance	175
	Replacement Streetscene vehicles	166
	Other Environement Projects	142
	Enhancements to Council buildings	56
	New Car Parks	47
	Birchfield Sewer Pollution, Yeovil	43
	Burial projects	35
	Contaminated Land works	8
	Total Environment	**1,159**
Health & Well-being	Synthetic Grass Hockey Pitch	612
	Sports grants	229
	Octagon Theatre	166
	Multi Use Games Area	119
	Community play schemes and Youth Facilties	98
	Grants for parishes with play areas	74
	ATV for Countrysides	23
	Birchfield Park Play Area	14
	Other Health & Well-being Projects	6
	Total Health & Well-being	**1,341**
	Total Capital spend in 2013/14	**3,890**
	Note: Explanation of individual projects is available if required	

Capital expenditure was financed from:

	£'000
Capital Receipts	2,340
Capital grants from non government funding partners	1,096
Capital grants from central government	454
Gross Capital spend in 2013/14	**3,890**

What are we worth:

What the Council owns and is owed:

Net Assets	31 March 2014 £'000
Buildings, Land and Equipment owned by the Council	58,618
Stock	83
Cash in Bank and Investments	42,559
Money owed to the Council (Long and Short-term Debtors)	5,354
Money owed by the Council (Creditors, Provisions, Finance Leases and Developers Contributions)	(7,012)
Money owed by the Council relating to the Pension Scheme	(61,814)
Total Assets less total Liabilities	**37,788**

What SSDC is Worth:	31 March 2014 £'000
Usable Reserves	50,901
Unusable Reserves	48,701
Pensions Reserve	(61,814)
Total Reserves and Balances	**37,788**

(items in brackets represent council liabilities)

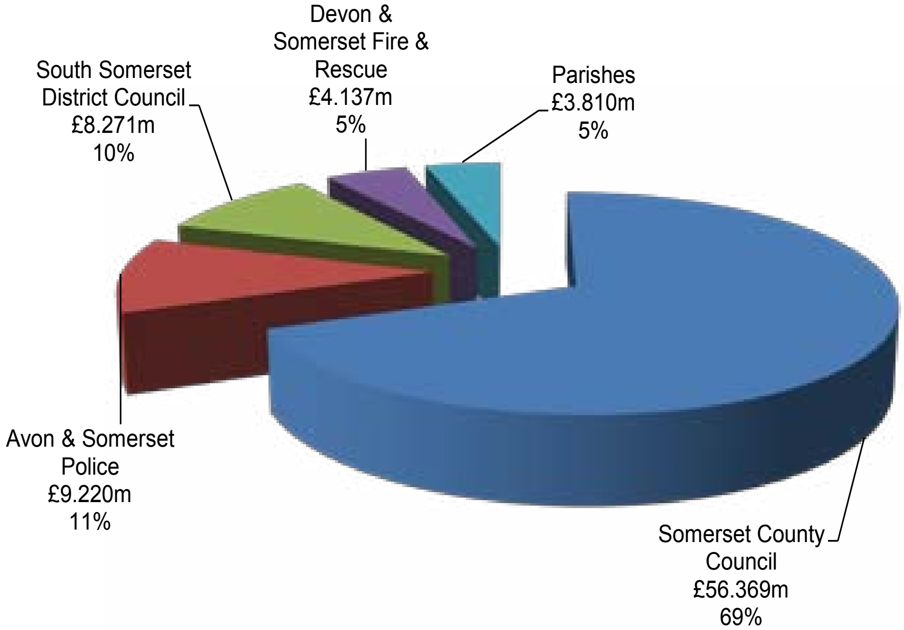
At the end of the year we draw up a balance sheet that shows how much SSDC's land and buildings are worth, what is owed to others, what others owe us and how much cash we have.

Usable Reserves are those that can be applied to fund expenditure or reduce local taxation. Unusable Reserves are for technical adjustments for non-current assets, financial instruments, retirement and employee benefits.

Council Tax facts and figures:

Description	2012/13	2013/14
Population of South Somerset	163,160	163,900
Collection of Council Tax in year	97.81%	97.40%
Value of Direct Debits	£63.448m	£64.871m
% Collected by Direct Debit	77.45%	76.73%

As a precepting (billing) authority we have to collect Council Tax on behalf of Somerset County Council, Avon & Somerset Police, Devon & Somerset Fire & Rescue and the Parish Councils within our district (we have no control over these authorities' expenditure). The most economical way of collecting this is by Direct Debit.



Statement from Assistant Director, Finance & Corporate Services

The council's Statement of Accounts has been prepared in accordance with the Accounting Code of Practice and has received an unqualified opinion. The figures in this summary were compiled having regard to proper accounting practices

2013/14 Annual Statement of Accounts

Strategic Director:	*Mark Williams, Chief Executive*
Assistant Director	*Donna Parham (Finance and Corporate Services)*
Service Manager	*Amanda Card, Finance Manager*
Lead Officer:	*Amanda Card, Finance Manager*
Contact Details:	*amanda.card@southsomerset.gov.uk or 01935 462542*

1. Purpose of the Report

To present the 2013/14 Annual Statement of Accounts to the Audit Committee for approval.

2. Recommendation (s)

(a) To approve the 2013/14 Statement of Accounts. A copy of the Statement of Accounts has been circulated separately with this agenda.

(b) To note the unqualified opinion on the financial statements.

(c) To authorise that the Assistant Director (Finance and Corporate Services) sign the Letter of Representation.

3. Background

3.1 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 principles is accountability and preparing and publishing the annual Statement of Accounts is one way that the Council achieves this objective.

3.2 The Accounts and Audit Regulations (England) 2011 came into force on 1 April 2011. This revised procedures for the approval and publication of the annual Statement of Accounts. The Responsible Financial Officer must now sign the accounts as true and fair by 30th June of the following year and Members are required to formally approve the audited and amended annual Statement of Accounts by the 30th September of the following year. The Statement of Accounts needs to be approved and signed by the Chair of this committee. **Please contact Amanda Card before the meeting on 01935 462542 with any questions on the information presented.**

3.3 The Statement of Accounts for 2013/14 has been prepared following International Financial Reporting Standards (IFRS).

3.4 This report:

- Outlines the key features of the 2013/14 revenue outturn position;
- Summarises the 2013/14 capital outturn position;
- Presents the 2013/14 Statement of Accounts and explains the key features and reasons for variations within those accounts.
- A verbal update will be given with reference to the auditor's report.

4. Key Features of the 2013/14 Outturn Reports

4.1 Revenue Outturn

4.1.1 The figures that were presented to District Executive on 6th June 2013 represent the “Above the Line” budgets that are monitored by the Executive on a quarterly basis. Members of the Audit Committee will find that the figures presented to them in the Statement of Accounts differ from those reported to District Executive as they represent both “Above” and “Below the Line” as a total cost. The “Below the Line” figures are distinguished from the “Above the Line” costs as they are outside the control of the delegated budget holder, being capital charges and recharges from support services such as Human Resources, Legal and Financial Services.

4.1.2 The overall outturn for SSDC Services in 2013/14 was £1,208,000 (6.3%) underspent. Outlined below is the summary of the figures presented to the District Executive on 5th June 2014;

	Original Budget £’000	**Movement During the Year £’000**	**Outturn Budget £’000**	**Actual Spend £’000**	**Variation £’000**	
SSDC Services	**17,955**	**1,127**	**19,082**	**17,874**	**(1,208)**	**F**

(Note that all figures in brackets are underspends).

4.1.3 The comparative position over the last two years was 4.8% underspent in 2012/13 and 3.5% underspent in 2011/12. (This is after taking out the figures for Treasury Management and the Local Strategic Partnership to ease comparison).

4.2 Carry Forwards

4.2.1 The District Executive was asked to approve £303,500 of specific carry forwards to 2013/14.

4.3 Revenue Balances and Reserves

4.3.1 Unallocated general fund balances totalled £5,708,000 at the end of the 2013/14 financial year. Regular reviews of balances were carried out during 2013/14 and the required levels were met throughout the year. The review carried out in May 2014 has set a level between £3,400,000 and £3,800,000 for the 2013/14 year, an increase due to the risks of the economic downturn on the Medium Term Financial Plan, the raised risks within the banking sector, and possible greater litigation risks but as members can see the levels of balances are still sufficient for the new financial year.

4.3.2 Specific Reserves totalled £8,435,000 at the end of the financial year. These reserves are actual cash sums set-aside for specific purposes.

4.4 Capital Outturn Report

The capital programme spend for 2013/14 was £3,890,000, which equates to a 15.1% underspend. This compares to a 40.1% underspend in 2012/13.

5. Loans

SSDC has a loans policy where loans may be given at PWLB (Public Works Loans Board) rates to local voluntary and charitable organisations. The maximum outstanding sum of those loans must not exceed £1,000,000 at any time. At the end of 2013/14 the amount of loans outstanding under this policy was £309,041.

6. Statement of Accounts

6.1 The District Auditor will review the annual Statement of Accounts and supporting working papers and will issue his opinion as to whether they present fairly the financial position of South Somerset District Council at 31 March 2014 and its income and expenditure for the year then ended.

6.2 A copy of the Statement of Accounts has been circulated separately with this agenda. In addition to this, a summary of the statements will be prepared in leaflet format to make them more accessible to the end user.

7. Key Features from the Statement of Accounts

7.1 The Statement of Accounts contains four core statements reflecting the financial position of SSDC as at 31st March 2014. These are;

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

7.2 There are additional statements relating to the Collection Fund (which deals with the collection and distribution of Council Tax and Business Rates).

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

7.4 The Code of Practice on Local Authority Accounting did not introduce any further technical changes for 2013/14.

8. The Comprehensive Income and Expenditure Statement

8.1 This account gives detailed information about the total expenditure on the services we 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 outlined to District Executive in the following way:

	£'000
Total Spend Reported to the District Executive	**17,874**
Adjustments:	
Amounts not reported to management but included on Costs of Services in Comprehensive Income and Expenditure Statement.	3,907
Net Cost of Services (taken from the Comprehensive Income and Expenditure Statement, page 28 of the financial statements)	**21,781**

8.2 The major year on year variations (over £0.2 million) and explanations for those variances are outlined below:

Services	**Previous Year 2012/13 Restated £'000**	**Current Year 2013/14 £'000**	**Variance £'000**	**Reason for Variance**
Central Services	(488)	391	879	Council Tax Benefit payment received from Central Government in 2012/13. Now a Council Tax Reduction Scheme Grant is received, shown in Taxation and Non-Specific Grants.
Housing Services	1,668	2,178	510	Increased Bad Debt Provision for Housing Benefits Overpayments and an increase in Housing Benefit Payments.

Note that figures in brackets show underspends compared to the previous year spend.

9. The Balance Sheet

9.1 The Balance Sheet provides the Council with a snapshot of our financial position overall as at the 31st March 2014. At 31 March 2014 the authority's net assets amounted to £38.38 million (£31.73 million at 31 March 2013).

9.2 The authority's net assets are significantly reduced by the inclusion of the pension scheme liability of £61.81 million (compared to £68.47 million at 31 March 2013). The present value of the pension scheme liability has decreased to £135.33 million (from £140.15 million at 31 March 2013) and the fair value of the scheme assets have increased to £73.52 million (£71.67 million at 31 March 2013).

9.3 In practice, the amount of net worth that can be used is £51.49 million (Usable Capital Receipts £36.40 million, Capital Grants Unapplied £0.36 million, Earmarked Reserves £8.44 million, Balances £5.71 million and Share in Joint Venture £0.59 million).

9.4 In addition, Members will note the Contingent liabilities disclosed in note 45. 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.

10. Cash Flow Statement

10.1 This statement outlines the changes in cash and cash equivalents of the authority during 2013/14.

10.2 There has been a net increase in cash and cash equivalents of £3.50 million.

10.3 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.

11. Collection Fund

11.1 The Collection Fund has seen some changes for the financial year 2013/14 which makes it incomparable to 2012/13.

11.2 The Council Tax Reduction Scheme was introduced in 2013/14. This meant that recipients of financial assistance for their Council Tax bill received a discount on their bill rather than receiving a benefit from Central Government. The total SSDC has collected on behalf of all of the precepting authorities (e.g. Somerset County Council, Avon & Somerset Police Authority, Devon & Somerset Fire & Rescue Authority and town/parish councils). There was a surplus of £1.56 million on the Council Tax element of the Collection Fund account. This surplus is split in proportion to the amount that each precepting authority precepts.

11.3 From April 2013, the system of Government funding was changed significantly. Funding is now based on the amount of business rates each authority collects, compared to the old system where the funding was based on a formula that did not relate to the business rates collected in the district. Therefore business rates retention is intended to provide incentives for local authorities to drive economic growth locally. The new funding regime which is based on performance 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 now 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 was a deficit of £1.96 million. This deficit is apportioned across central government, South Somerset District Council, Somerset County Council and Devon & Somerset Fire and Rescue Authority on the proportions detailed previously.

12. Prior Period Adjustment

12.1 There have been some extensive revisions made to the 2013/14 Code of Practice (England and Wales) on Local Authority Accounting to incorporate IAS 19 Amendments. This has meant that Employee Benefits, in particular the way that Pensions have been disclosed has changed. Although the Pension Liability has not altered, it has been necessary to restate the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and the Cashflow. Many of the Pension disclosures have also been restated.

12.2 It has also been necessary to show the investment that South Somerset District Council has with Lufton 2000. This has meant a restatement of the

Comprehensive Income and Expenditure Statement, the Balance Sheet and the Movement in Reserves Statement.

13. Auditor's Opinion

13.1 An unqualified opinion has been issued on the financial statements.

13.2 During the audit there were some minor amendments made to the financial statements following discussions with the auditors. Processes have been put in place to eliminate errors that have been identified during the 2013/14 audit to ensure that they do not occur in future years. The amendments are detailed beneath:

13.2.1 Provision for Business Rate appeals were not disclosed separately. SSDC's share was £950,000. This has been addressed by disclosing separately as shown in note 26.

13.2.2 The carrying value of assets held under a finance lease was incorrectly stated. The figure has now been updated as per note 43.

13.2.3 It was noted that the loss on the disposal of assets figure had been incorrectly calculated. This has now been amended in the relevant financial statements and notes.

13.2.4 The accounting for some lease vehicles was incorrect. This meant that although the net cost of services for Environmental and Regulatory Services within the Comprehensive Income and Expenditure Statement was correct, the expenditure and income was inflated. This has now been amended.

13.3 None of the adjustments made impacted upon the financial position of the Council.

14. Financial Implications

There are no financial implications associated with these recommendations.

Background Papers: *Revenue outturn 2013/14*
Capital outturn 2013/14
Accounting Policies 2013/14
The Audit Findings for South Somerset District Council Year Ended 31 March 2014 by Grant Thornton.

South Somerset District Council

Statement of Accounts 2013/2014

Contents

Introduction to South Somerset

Strategically located midway between the English and Bristol Channels, South Somerset extends from Wincanton in the East to Chard in the West and covers 959 square kilometres. Its population of around 160,000 people is spread among 121 parishes - Yeovil is the largest town with 45,000 people living in or close to it.

South Somerset is predominantly an agricultural area of diverse landscapes and villages with over 40% of the population living in settlements of fewer than 2,500 people. It has more conservation areas than any other district in the country, and the second highest number of listed buildings. The district is renowned for its fine National Trust properties, classic gardens, historic market towns and museums – most notably the Fleet Air Arm Museum at Yeovilton and Haynes Motor Museum at Sparkford.

30 per cent of the workforce is employed in manufacturing – nearly double the national average. Large companies located in the district include Agusta Westland, Honeywell and Screwfix. Trading estates and business parks, housing a wide range of light industries, are also spread across South Somerset. Although unemployment is low, there are pockets of rural and urban deprivation.

The Council employs 439 full time equivalent staff who work together with 60 elected councillors. It covers one of the biggest districts in the country, both in terms of geographical size and total population.

SSDC is the billing authority and collects council tax on behalf of the following; Avon and Somerset Police Authority, Somerset County Council, Devon and Somerset Fire and Rescue and 121 town and parish councils. Of the average Band D council tax of £1,490.64 SSDC's share is £150.74. SSDC's net budget in 2013/14 was £17.9 million.

Explanatory Foreword

The Key Accounting Standards and Statements

We have followed the Chartered Institute of Public Finance & Accountancy's Code of Practice on Local Authority Accounting in Great Britain in compiling our statement of accounts for 2013/14.

The accounts fairly reflect South Somerset District Council's financial position for the financial year ended 31 March 2014. Our accounting policies are outlined in this document and have been fairly and consistently applied. We keep proper and up-to-date accounting records and take all reasonable steps to prevent and detect fraud and other irregularities.

The Assistant Director - Finance and Corporate Services is the statutory officer responsible for the proper administration of the Council's financial affairs. She is now required by law to confirm that the Council's system of internal controls can be relied on to produce an accurate statement of accounts. Her statement of assurance for 2013/14 appears on page 12 of this document.

The main statements included in the accounts along with an explanation of their purpose are as follows:

Movement in Reserves Statement (pg 27)
This statement summarises the movement in the year of the different reserves held by the authority.

Comprehensive Income and Expenditure Statement (pg 29)
This account consolidates all the gains and losses experienced by the authority during the financial year. It details information about total expenditure on the services that we provide. Income for each service is matched against the expenditure to show the net cost of services. The account also shows how much is received from council tax payers and from general government grants to help meet the cost of services.

Balance Sheet (pg 30)
The balance sheet provides a snapshot of our financial position as at 31 March 2014. It sets out what we own and what we owe at that point in time.

Cash Flow Statement (pg 31)
This statement summarises the total cash movements during the year for both capital and revenue purposes.

Collection Fund (pg 69)
We are legally obliged to maintain this fund separately from all our other funds and accounts. It shows the transactions that have arisen because we are a billing authority, collecting non-domestic rates and council tax on behalf of the precepting authorities (the police, fire service, county council, town and parish councils) as well as for ourselves. The collection fund records the income we receive from local tax payers and the money that is distributed as a precept.

Revenue Account Summary
Our revenue account (also known as the General Fund) bears the net costs of providing day-to-day services.

The budget for the 2013/14 financial year was set in February 2013. SSDC has a good track record in finding new ways of working and delivering budget savings year on year. This has meant that the impact of those savings on front line services to the public has been minimised.

Comparing actual spending to budget

The budget for the year was supported by no change in Council Tax for the third year running. This gave a Band D Council tax of £150.74.

Our original total net expenditure budget for the year was £18m. This represents the net cost of services taking into account:
- £45.5m of specific government grants;
- £12.2m income from fees and charges for services provided; and
- £0.3m of income from our investments.

It also included the following:
- Efficiency savings of £540k;

The total net expenditure budget for the year was financed by:
- £6.5m of business rates and general government grants; and
- £9.5m of council tax income.
- £1.9m of new homes bonus

Our final revenue account for the year showed an under spend compared to the original and revised budget for the year. At the year end SSDC actually under spent on its original budget by £81k and its revised budget by £1,208k.

A full list of the differences between actual and planned spend for the year, by service, is provided in the next section of this foreword.

Explaining the big differences

The top three variances between actual net spending and the revised budget that contributed to the variation were:

- Financial Services underspent by £204k due to investment income exceeding the budget and savings on insurance premiums
- Engineering & Property Services made significant savings of £179k on energy & maintenance costs
- Development Control underspent by £126k due to planning fee income exceeding the budget

Reporting against budget

The table below provides a high level summary of our net expenditure on services. The analysis reflects the responsibilities of our Executive Board Members.

All budgets are split between 'above' and 'below' the line with managers only being responsible for 'above' the line items. Above the line budgets include all of the items considered to be under the managers' control and include such things as employee costs, supplies and services, income etc. Below the line budgets include support services, capital charges and revenue expenditure funded from capital under statute. As every item of expenditure and income is above the line somewhere in the Council's accounts, only above the line items are reported to committee for budget monitoring purposes. The total cost of the service is established by adding the above and the below the line items together.

The table below sets out the overall picture of the 'above the line' revenue budgets that will form part of the annual Statement of Accounts. It compares the position to the previous financial year and the original and revised budget for 2013/14.

Previous Year Spend 2012/13 £'000	Service	Original Budget 2013/14 £'000	Outturn Budget 2013/14 £'000	Actual Spend 2013/14 £'000	Variation £'000	
497	Strategic Management	629	612	533	(79)	F
627	Financial Services	1,011	811	607	(204)	F
961	ICT Services	924	949	921	(28)	F
165	Procurement & Risk Management	165	166	167	1	A
(379)	Revenue & Benefits	80	86	84	(2)	F
943	Democratic Services	1,045	1,085	1,049	(36)	F
249	Legal Services	284	331	254	(77)	F
101	Fraud & Data Management	100	101	99	(2)	F
392	Human Resources	341	359	328	(31)	F
344	Place & Performance	357	326	286	(40)	F
314	Economic Development	370	1,339	1,243	(96)	F
408	Development Control	540	521	395	(126)	F
547	Spatial Policy	543	567	560	(7)	F
54	Equalities	53	57	51	(6)	F
322	Community & Third Sector Partnerships	283	416	417	1	A
66	LSP	26	26	26	0	
10	Family Support Programme	0	0	0	0	
221	Area East	262	237	215	(22)	F
197	Area North	252	221	176	(45)	F
251	Area South	325	298	269	(29)	F
329	Area West	346	291	276	(15)	F
505	Operations & Customer Focus	485	488	488	0	
1,039	Environmental Health	1,014	1,041	1,034	(7)	F
154	Civil Contingencies	136	137	172	35	A
214	Engineering & Property	120	145	(34)	(179)	F
(12)	Building Control	(36)	(27)	(14)	13	A
1,873	Streetscene	1,750	1,780	1,762	(18)	F
4,045	Waste & Recycling	4,245	4,292	4,212	(80)	F
(59)	Licensing	(2)	17	(57)	(74)	F
315	Arts & Entertainment	352	366	277	(89)	F
216	Sport & Leisure Facilities	272	308	308	0	
559	Community Health & Leisure	776	778	786	8	A
593	Housing & Welfare	664	712	735	23	A
256	Countryside	243	246	249	3	A
16,317	**TOTAL SPEND**	**17,955**	**19,082**	**17,874**	**(1,208)**	

Reconciliation to the Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement gives detailed information about the total expenditure on the services we provide. It also shows the council tax and government grants we received to help pay for those services.

The figures used in the table beneath are reconciled to the Comprehensive Income and Expenditure Statement as follows:

2012/13 £'000		2013/14 £'000
(94,809)	Gross Income - "Where the money came from"	(85,992)
98,056	Gross Expenditure - "Where the money went"	89,387
3,247	**(Surplus)/Deficit for the year per the Comprehensive Income and Expenditure Statement**	**3,395**

Where the money came from

The following table provides an analysis of our main sources of income and compares the position to the previous financial year.

2012/13 £'000	Sources of Income	2013/14 £'000
13,243	Council Tax Payers (Including Parish Precept of £4,197)	12,308
9,305	Central Government Support	11,617
58,851	Specific Government Contribution	47,577
2,002	Non Government Grants & Contributions	1,178
9,932	Sales, Fees & Charges	11,318
425	Interest on Investment	437
1,051	Share of Right to Buy Receipts from former Council dwellings	1,557
94,809	**Gross Income**	**85,992**

Where the money went

The following table provides an analysis of our main types of expenditure we incur and compares the position to the previous financial year.

2012/13 £'000	Categories of Expenditure	2013/14 £'000
16,365	Employees	15,728
2,926	Premises Related	3,073
1,261	Transport Related	1,236
5,502	Supplies and Services	6,190
5,755	Third Party Payments	6,145
55,331	Payments to Benefits Claimants	44,742
6,892	Capital & Financing Charges	8,076
4,032	Town & Parish Precepts	4,197
(8)	Reserves and Other Balance Sheet Items	0
98,056	**Gross Expenditure**	**89,387**

Capital Account Summary

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

- buy or sell land or property;
- build new property;
- carry out major repairs or improvements to our properties;
- provide grants for the above type of activity.

Comparing actual gross spending to gross budget

Our original gross budget plan for the year was to spend £3.598m on capital projects. We revised our capital budget for the year to take account of the position at the end of the 2012/13 financial year and the progress on the ground with our capital projects. The revised gross budget total was £4.584m.

The increase of £0.986m between the original and revised budget is largely due to some Save to Earn projects being agreed for the year and various grants to community projects, to take advantage of developers contributions. The remaining movement was due to a variety of factors including projects progressing from the reserve list or being returned to reserves. Our gross capital spend for the year was £3.890m.

Explaining the big differences

The gross amount spent was £749k less than the revised gross budget. The top variance between actual gross spend and the revised budget that contributed to the variation was:

- £154k under spend on the affordable housing. These were three schemes scheduled for completion in 2013/14 where there have been slight delays over the appointment of approved contractors by the Housing Associations.

Of the £749k, £724k will be carried forward to spend in 2014/15.

Where the money went:

	Original Budget 2013/14 £'000	Outturn Budget 2013/14 £'000	Actual Spend 2013/14 £'000	Variation £'000
Finance & Corporate Services	438	568	417	(151)
Legal & Corporate Services	0	35	29	(6)
Economy	420	368	223	(145)
Communities	595	827	721	(106)
Environment	1,907	1,374	1,159	(215)
Health & Well-being	238	1,412	1,341	(71)
Total Spent	**3,598**	**4,584**	**3,890**	**(694)**

Where the money came from:

Financing of Capital Expenditure	2013/14 £'000
Capital receipts	2,340
Capital grants from non-government funding partners	1,096
Capital grants from central government	454
Gross capital spend	**3,890**

As the table shows, we continued with our good record of levering in other people's money to help pay for our capital projects. We only contributed £2.340m towards the £3.890m we spent last year. This means, for every £1 of our capital resources we contributed, we received 66p from external organisations.

Our capital receipts are very important to us. Income from our investments is required to support the revenue account each year. We began 2013/14 with £36.97m of capital receipts that could be used to fund capital expenditure and ended the year with £36.39m.

The Table below shows the capital receipts we received in the year and the amount that was used to fund capital expenditure.

2012/13 Total £'000	Movement in Year	2013/14 Total £'000
(37,301)	Balance at beginning of year	(36,971)
(1,277)	Receipts from Sale of Assets	(1,771)
1,594	Receipts applied to finance capital expenditure	2,340
13	Amounts payable to the housing capital receipt pool	6
(36,971)	**Balance at end of year**	**(36,396)**

(Brackets represent a reduction in the reserve)

Reserves and Balances Summary

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. The state of our financial well being is reflected in the level of reserves and working balances we hold.

The General Fund Balance of £5.71m, represents the accumulated revenue surpluses and should provide a financial cushion should anything unexpected happen that leads to unplanned expenditure.

An exercise is undertaken to establish the areas of significant risk within the revenue budget and the likelihood of the risk occurring. This assessment allows us to calculate how much money the Council should hold in reserve, for 2013/14 the figure was in the range of £3.4m and £3.8m.

In addition we maintain a number of earmarked reserves. These are special reserves we keep for specific types of expenditure in the future. Examples include election costs, leisure centre repairs, grant and leisure development. We added £2.99m to these reserves during the course of the year, but also spent £1.18m on specific projects during the year. As at 31 March 2014 we have £8.44m of these earmarked reserves.

Balance Sheet Summary

At 31 March 2014 the authority's net assets amounted to £38.38m (£31.73m restated at 31 March 2013).

The authority's net assets are significantly reduced by the inclusion of the pension scheme liability of £61.81m (compared to £68.47m at 31 March 2013). The present value of the pension scheme liabilities have decreased to £135.33m (from £140.14m at 31 March 2013) and the fair value of the scheme assets have increased to £73.52m (£71.67 at 31 March 2013).

In practice the amount of net worth that can be used is £50.9m (Usable Capital Receipts £36.4m, Capital Grants Unapplied £0.36m, Earmarked Reserves £8.44m and General Fund Balances £5.71m). The Authority also has shares in a joint venture with net worth of £0.59m The remaining £13.11m is held in technical reserves which are not available for use.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH SOMERSET DISTRICT COUNCIL

Opinion on the Authority financial statements

We have audited the financial statements of South Somerset District Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and Collection Fund and the related notes. 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 2013/14.

This report is made solely to the members of South Somerset District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. 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.

Respective responsibilities of the Assistant Director (Finance and Corporate Services) and auditor

As explained more fully in the Statement of the Assistant Director's (Finance and Corporate Services) Responsibilities, the Assistant Director (Finance and Corporate Services) 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, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Assistant Director (Finance and Corporate Services); and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of South Somerset District Council as at 31 March 2014 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires
- the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH SOMERSET DISTRICT COUNCIL

We have nothing to report in these respects.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

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

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place 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.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those 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 2014.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, we are satisfied that, in all significant respects, South Somerset District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed our consideration of matters brought to our attention by local authority electors. We are satisfied that these matters do not have a material effect on the financial statements or a significant impact on our value for money conclusion.

Simon Garlick
Directorfor and on behalf of Grant Thornton UK LLP, Appointed Auditor

Hartwell House
55-61 Victoria Street
BRISTOL
BS1 6FT

expected 29 September 2014

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 Assistant Director – Finance and Corporate Services;

- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;

- approve the Statement of Accounts.

Assistant Director – Finance and Corporate Services' Responsibilities

The Assistant Director – Finance and Corporate Services 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 Assistant Director – Finance and Corporate Services 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 Assistant Director – Finance and Corporate Services has also:

- kept proper accounting records which were up to date;

- taken reasonable steps for the preventing and detection of fraud and other irregularities.

I confirm that this Statement of Accounts presents a true and fair view of the financial position of South Somerset District Council at the 31 March 2014 and its income and expenditure for the year ended 31 March 2014.

Signed:

Donna Parham, Assistant Director – Finance and Corporate Services

Date: 26th June 2014

Statement of Accounting Policies

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2013/14 financial year and its position at the year end of 31 March 2014. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011 which those regulations require to prepare in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and the Service Reporting Code of Practice (SeRCOP) 2013/14 supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

The accounting convention adopted 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:

- Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or services.

- 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 stocks on the balance sheet.

- Works are charged as expenditure when they are completed, before which they are carried as works in progress on the balance sheet.

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

- Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. The largest estimate of this nature is the amount accrued in respect of housing benefit. This calculation is based upon the pre-audited return. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge is made to revenue for the income that might not be collected.

- Income and expenditure are credited and debited to the relevant revenue account, unless they properly represent capital receipts or capital expenditure.

3. Receipts and Payments in Advance

Receipts in advance represent income received in the current year in respect of fees and charges (including our proportion of Council Tax) for the forthcoming years. They are included as a liability (within Creditors) on the Balance Sheet.

Payments in Advance represent amounts paid in the current year in respect of goods and services for the forthcoming years. They are included as an asset (within Debtors) on the Balance Sheet.

4. Cash and Cash Equivalents

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

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 changes in value. SSDC will include deposits in Money Market Funds and Business Reserves in Cash Equivalents.

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

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

Changes in accounting polices 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. When a change is made, it is applied retrospectively (unless stated otherwise) by adjusting the opening balances and comparative amounts for the prior period as if the new policy had always been applied.

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

6. Exceptional Items

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

7. 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 fixed assets during the year:

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

The Council is not required to raise council tax to cover depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement.

Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution to 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.

8. Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year end. They include benefits such as wages and salaries, paid annual leave and paid sick leave and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for service 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 to 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 and 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 and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy. Where termination benefits involve the enhancement of pension, 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 Pensions 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 scheme attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method i.e. an assessment of the future payments that will be made in relation to the retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate based on the yield on the iBoxx AA, rated over the 15 year Corporate Bond Index.

- The assets of the Somerset County Council pension fund attributable to the Council are included in the balance sheet at their fair value on a current bid price (estimate bid values have been used on pre-2008/09 valuations based on mid market values where current bid prices are not available).

- The change in net pension liability is analysed into seven components:
  - Current service cost – the increase in liabilities as a result of years of service earned this year - allocated to the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
  - Past service costs – the increase in liabilities arising from current year decisions 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 as part of Non Distributed Costs.
  - Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid is debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

- Expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Gains/losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees is debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
- Actuarial gains and losses – changes in the net pension liability that arise because events have not coincided with assumptions made in the last actuarial valuation or because the actuaries have updated their assumptions are debited or credited to the Statement of Total Recognised Gains and Losses.
- 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 the pensioners in the year, not the amount calculated according the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measure 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.

In relation to the Local Government Pensions Scheme, a revised IAS19 standard applied for accounting periods beginning on or after 1 January 2013. The main changes were:

- Removal of the expected return on assets, to be replaced by a net interest cost comprising interest income on the assets and interest expense on the liabilities, which are both calculated with reference to the discount rate;
- Some labelling changes to the Profit and Loss charge, e.g. "Service costs" now includes what was previously described as the "Current Service Cost" plus the "Past Service Cost" plus any "Curtailments" and "Settlements; and
- Administration expenses are now accounted for within the Profit and Loss charge; previously we made a deduction to the actual and expected returns on assets.

Discretionary Benefits

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

9. Events after the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts 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.

10. Financial Instruments

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

This means that the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over a minimum period equal to the outstanding term on the loan or 10 years (if shorter) against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets
Financial assets are classified into two types:

- Loans and receivables - assets that have fixed or determinable payments but are not quoted in an active market

- Available-for-sale assets - assets that have a quoted market price and/or do not have fixed or determinable payments

Loans and Receivables
Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. This means that the amount presented in the Balance Sheet is the outstanding principal receivable and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, the Council has made a number of car loans, bicycle loans and loans for learning to members of staff at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the members of staff, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund

Balance is the interest receivable for the financial year. The reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to, or from, the Financial Instruments Adjustment Account in the Movement in Reserve Statement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

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

11. Government Grants and Contributions

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

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

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

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

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

12. Intangible Fixed Assets

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

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 Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and loss 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 and Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

14. 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.

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 the acquisition of the interest in the property, plant and equipment – applied to write down the lease liability
- 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 revenue contributions 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 benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease.

The Authority as Lessor

Finance Lease
Where the Authority grants a finance lease over a property of 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 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 the acquisition of the interest in the property– applied to write down the lease debtor (together with premiums received),
- 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 fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases
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 charges as an expense over the lease term on the same basis as rental income.

15. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice (SeRCOP) 2013/14. The total absorption costing principal is used where the full cost of overheads and support services are shared between users in proportion to the benefits received with the exception of:

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

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

16. Property, Plant and Equipment

Assets that have physical substance and are held for use in provision of services 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 £500. 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
- 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 fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Assets included in the balance sheet at fair value are re-valued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Account 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 Property, Plant and Equipment Assets with a determinable finite life, 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 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 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 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 are credited to 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 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 Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement. 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 fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

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.

17. 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.

18. 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 predominately the museum stock that is held at the Community Heritage Access Centre (CHAC). The information is held on an item database held by the Museum. Items within the museum stock can be viewed by appointment. The six principal collections of heritage assets held include:

- Firearms;
- Ceramic, sculptures, bronzes and woodcarvings;
- The art collection and photos;
- Antiques furniture, rugs and tapestries;
- Medals; and
- Antiquarian books and manuscripts.

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.

Other heritage assets consist of historical buildings (Dawes Twine Works, Burlingham Barn and the Four Follies), Civic Regalia and the Crematorium's Book of Remembrance. This information is held on the asset register. They are presently valued at historic cost, which is £1. There is no depreciation charge on these heritage assets because it has been estimated that the assets have a useful life of such length that any depreciation charge would be negligible and can be ignored on the basis of materiality.

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. 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.

19. Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council an 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 to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the authority becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

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

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

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

20. Reserves

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

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

21. 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, 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.

22. 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.

23. Related Party Transactions

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

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

24. The Collection Fund

Billing authorities in England are required by statute 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).

There is no requirement for a separate Collection Fund Balance Sheet as balances are distributed across the Balance Sheets of the billing authority, the Government and precepting authorities.

Further details on the Collection Fund use can be found on page 69.

25. Accounting for Council Tax

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

The Council Tax income included in the Taxation and Non Specific Grant Income line in the Comprehensive Income and Expenditure Statement shall be the accrued income for the year. This is calculated by taking the demand on the Collection Fund plus the authority's share of the carry forward surplus/deficit on the Collection Fund as at the 31st March 2014. This amount is then adjusted for the authority's share of the surplus/deficit at 31st March 2013 that has not been distributed or recovered in the current year.

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

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

26. Accounting for National Non-Domestic Rates

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

The National Non-Domestic Rates income included in the Taxation and Non Specific Grant Income line in the Comprehensive Income and Expenditure Statement shall be the accrued income for the year. This is calculated by taking the demand on the Collection Fund plus the authority's share of the carry forward surplus/deficit on the Collection Fund as at 31st March 2014. This amount is then adjusted for the authority's share of the surplus/deficit of 31st March 2013 that has not been distributed or recovered in the current year.

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

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

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

Movement in Reserves Statement

Reserves represent the authority's net worth and shows its spending power. This statement shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the authority'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	Capital Receipts Reserve	Capital Grants Unapplied	Joint Venture Reserves	**Total Usable Reserves**	Unusable Reserves	**Total Authority Reserves**
	£'000	£'000	£'000	£'000	£'000	**£'000**	£'000	**£'000**
Restated Balance at 31 March 2012	**(4,168)**	**(5,550)**	**(37,301)**	**(285)**	**(580)**	**(47,304)**	**16,765**	**(30.539)**
Movement in reserves during 2012/13								
(Surplus) /Deficit on the provision of services	4,147	0	0	0	**0**	**4.147**	0	**4,147**
Other Comprehensive Income and Expenditure	0	0	0	0	**(7)**	**(7)**	(4,753)	**(4,760)**
Total Comprehensive Income and Expenditure	**4,147**	**0**	**0**	**0**	**(7)**	**4,140**	**(4,753)**	**(613)**
Adjustments between accounting basis & funding basis under regulations (note 6)	(5,411)	0	330	(588)	**0**	**(5,669)**	5,669	**0**
Net Increase/Decrease before transfers to Earmarked Reserves	**(1,264)**	**0**	**330**	**(588)**	**(7)**	**(1,529)**	**916**	**(613)**
Transfers (to)/from Earmarked Reserves (note 28)	1,079	(1,079)	0	0	**0**	**0**	0	**0**
Increase/Decrease in 2012/13	**(185)**	**(1,079)**	**330**	**(588)**	**(7)**	**(1,529)**	**916**	**(613)**
Restated Balance at 31 March 2013	**(4,353)**	**(6,629)**	**(36,971)**	**(873)**	**(587)**	**(49,413)**	**17,681**	**(31,732)**
Movement in reserves during 2013/14								
(Surplus) /Deficit on the provision of services	3,396	0	0	0	**0**	**0**	0	**3,396**
Other Comprehensive Income and Expenditure	0	0	0	0	**(5)**	**(5)**	(10,039)	**(10,044)**
Total Comprehensive Income and Expenditure	**3,396**	**0**	**0**	**0**	**(5)**	**3,391**	**(10,039)**	**(6,648)**
Adjustments between accounting basis & funding basis under regulations (note 6)	(6,556)	0	575	510	**0**	**(5,471)**	5,471	**0**
Net Increase/Decrease before transfers to Earmarked Reserves	**(3,160)**	**0**	**575**	**510**	**(5)**	**(2,080)**	**(4,568)**	**(6,648)**
Transfers (to)/from Earmarked Reserves (note 28)	1,806	(1,806)	0	0	**0**	**0**	0	**0**
Increase/Decrease in 2013/14	**(1,354)**	**(1,806)**	**575**	**510**	**(5)**	**(2,080)**	**(4,568)**	**(6,648)**
Balance at 31 March 2014	**(5,707)**	**(8,435)**	**(36,396)**	**(363)**	**(592)**	**(51,493)**	**13,113**	**(38,380)**

Comprehensive Income and Expenditure Statement

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

(Brackets represent income)

Gross Expenditure Year Ended 31 March 2013 (Restated) £'000	Gross Income Year Ended 31 March 2013 (Restated) £'000	Net Cost of Services Year Ended 31 March 2013 (Restated) £'000	Service		Gross Expenditure Year Ended 31 March 2014 £'000	Gross Income Year Ended 31 March 2014 £'000	Net Cost of Services Year Ended 31 March 2014 £'000
13,123	(13,611)	(488)	Central Services		2,659	(2,268)	391
7,068	(2,872)	4,196	Cultural and Related Services		7,368	(3,168)	4,200
10,368	(1,873)	8,495	Environmental and Regulatory Services		10,438	(1,899)	8,539
6,966	(2,715)	4,251	Planning Services		7,110	(2,839)	4,271
1,970	(2,421)	(451)	Highways and Transport		1,885	(2,607)	(722)
48,183	(46,515)	1,668	Housing Services		48,611	(46,433)	2,178
2,551	(105)	2,446	Corporate and Democratic Core		2,645	(37)	2,608
315	0	315	Non Distributed Costs		316	0	316
90,544	**(70,112)**	**20,432**	**Net Cost of Services**		**81,152**	**(59,371)**	**21,781**
4,084	(1,051)	3,033	Other operating expenditure	7	4,247	(1,557)	2,690
611	0	611	Net Loss/(Gain) on Disposal of Fixed Assets	9	260	0	260
3,045	(425)	2,620	Financing and Investment Income and Expenditure	10	3,026	(436)	2,590
0	(22,549)	(22,549)	Taxation and Non-Specific Grant Income	11	0	(23,925)	(23,925)
98,284	**(94,137)**	**4,147**	**(Surplus)/Deficit on Provision of Services**		**88,438**	**(85,289)**	**3,396**
		(3,827)	(Surplus)/Deficit on revaluation of Property, Plant & Equipment				444
		10	(Surplus)/Deficit on revaluation of Available for Sale Financial Assets				(52)
		(936)	Remeasurement of the Net Defined Benefit Liability				(10,431)
		(7)	Share of Other Income and Expenditure of Joint Venture				(5)
		(4,760)	**Other Comprehensive Income and Expenditure**				**(10,044)**
		(613)	**Total Comprehensive Income and Expenditure**				**(6,648)**

Balance Sheet (Brackets represent liabilities)

The balance sheet is a ‘snapshot’ of the authority’s financial positon 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 Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories. The first category of reserves are ‘Usable Reserves’ i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example 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’.

31 March 2013			As at 31 March 2014	
Authority			Authority	
£’000			£’000	£’000
58,266	Property, Plant & Equipment	12		56,837
129	Intangible Assets	17		162
1,614	Heritage Assets	19		1,619
587	Investment in Joint Venture	47		592
2	Long Term Investments	20		6,648
565	Long Term Debtors	21		495
61,163	**TOTAL LONG TERM ASSETS**			**66,353**
35,515	Short Term Investments	20	29,057	
107	Inventories		83	
6,161	Short Term Debtors	22	5,809	
3,355	Cash & Cash Equivalents	23	6,854	
45,138	**CURRENT ASSETS**			**41,803**
(3,145)	Short Term Creditors	24	(3,902)	
(3,145)	**CURRENT LIABILITIES**			**(3,902)**
(25)	Provisions	25		(950)
(2,568)	Developers Contributions Deferred	27		(2,719)
(90)	Long Term Liabilities - Creditors	26		(42)
(267)	Long Term Liabilities - Finance Lease	43		(349)
(68,474)	Liability related to defined benefit pension schemes	45		(61,814)
(71,424)	**LONG TERM LIABILITIES**			**(66,874)**
31,732	**NET ASSETS**			**38,380**
(48,826)	Usable Reserves	28		**(50,901)**
(587)	Usable Reserve - Share in Joint Venture			**(592)**
17,681	Unusable Reserves	29		**13,113**
(31,732)	**TOTAL RESERVES**			**(38,380)**

I confirm these accounts were approved by the Audit Committee at the meeting held on 23 September 2014.

Signed: Date:

Cllr Derek Yeomans, Chair of Audit Committee

Cash Flow Statement (Brackets on this page represent income)

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

Year Ended 31 March 2013		Year Ended 31 March 2014
£'000		**£'000**
(4,147)	Net surplus or deficit on the provision of services	**(3,396)**
5,841	Adjustments to net surplus or deficit on the provision of services for non cash movements (note 31)	**8,568**
(3,217)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (note 31)	**(2,774)**
(1,523)	**Net cash flows from operating activities**	**2,398**
1,456	Investing Activities (note 32)	**(62)**
(191)	Financing Activities (note 33)	**1,163**
(258)	**Net increase or decrease in cash and cash equivalents**	**3,499**
3,613	Cash and Cash Equivalents (including bank overdraft) at 1 April (note 23)	**3,355**
3,355	**Cash and Cash Equivalents at 31 March (note 23)**	**6,854**

Notes to the Accounts

1. PRIOR PERIOD ADJUSTMENTS

IAS19 Employee Benefits (as amended in 2011)

There has been extensive revisions made to the 2013/14 Code of Practice (England and Wales) on Local Authority Accounting to incorporate the IAS19 (June 2011) Amendments. These amendments are designed to provide users of the financial statement with a much clearer picture of our current and future obligations resulting from the provision of defined benefit pension plans and how these obligations affect our financial position, finanicial performance and cashflows.

As a result of these revisions, it is necessary to alter the way Employee Benefits are disclosed. This means that some restatements are required for the comparative figures. Although there has been no need to restate the Balance Sheet as they do alter the overall Pension Liability, there is a need to amend the other Primary Statements. The restatements do not affect the Council’s general fund balances.

The following restatements are required:

Restatement of Comprehensive Income and Expenditure Statement:

	2012/13 Statements £’000	Adjustment made £’000
Net Cost of Services		
Central Services	(496)	8
Cultural and Related Services	4,197	(1)
Environmental & Regulatory Services	8,496	(1)
Planning Services	4,272	(21)
Highways and Transport Services	(412)	(39)
Housing Services	1,669	(1)
(Surplus)/Deficit on Provision of Services	1,655	955
Financing and Investment Income and Expenditure		
Other Comprehensive Income and Expenditure		
Remeasurement of the New Defined Benefit Liability	(36)	(900)

Restatement of Movement in Reserves Statement:

	2012/13 Statements £’000	Adjustment made £’000
Movement in Reserves during 2012/13 - Usable Reserves		
(Surplus)/Deficit on the provision of services	3,247	900
Adjustments between accounting basis and funding basis under regulation	(4,511)	(900)
Movement in Reserves during 2012/13 - Unusable Reserves		
(Surplus)/Deficit on the provision of services	(3,853)	(900)
Adjustments between accounting basis and funding basis under regulation	5,669	900

Restatement of Cashflow Statement:

	2012/13 Statements £'000	Adjustment made £'000
Net Cashflows from Operating Activities		
Net Surplus or deficit on the provision of services	(3,247)	(900)
Adjustment to net surplus or deficit on the provion of services for non-cash movements	4,941	900

Lufton 2000

The joint venture Lufton 200 (with the purpose of purchasing and developing land at Lufton) was set up between the Authority and Abbey Manor Development Limited in 1999 with each holding a 50% interest and equal share of profits or losses. Up until now, the Authority has not shown their share of this Joint Venture in their accounts.

Restatement of Comprehensive Income and Expenditure Statement:

	2012/13 Statements £'000	Adjustment made £'000
Other Comprehensive Income and Expenditure		
Share of Other Income and Expenditure of Joint Venture	0	(7)

Restatement of Balance Sheet:

	2012/13 Statements £'000	Adjustment made £'000
Long Term Assets		
Investment in Joint Venture	0	587
Usable Reserves		
Authority's Share of Reserves of Joint Venture	0	(587)

Restatement of Movement in Reserves Statement:

	2012/13 Statements £'000	Adjustment made £'000
Usable Reserves - Authority's Share of Reserves of Joint Venture		
Balance as at 31 March 2012	**0**	**(580)**
Other Comprehensive Income and Expenditure	0	(7)
Balance as at 31 March 2013	**0**	**(587)**

2. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

- 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 is 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 authority 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. SSDC will include deposits in Money Market Funds and Business Reserves in 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
  Insurance valuations are considered appropriate. The potential costs of professional valuations are of no benefit since such assets will never be sold only for if lost, stolen or broken.

- Whether to produce group accounts
  The authority has reviewd its relationship with other entities and conclude that although Lufton 2000 would fall under Group Accounts, that the values are not material and will included as an investmetn on the Authoirty's accounts.

- Whether Plant, Property and Equipment requires valuation every year
  Plant, Property 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 from the District Valuer as to his professional opinion on the changing values of assets and whether these are material.

3. 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 Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Authority's Balance Sheet at 31 March 2014 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 Authority 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 £202k for every year that useful lives had to be reduced
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.	An increase over the forthcoming year of 10% in either the total number of claims or the estimated average settlement would each have the effect of adding £6.18 million to the provision needed.
Arrears	At 31 March 2014, the Authority had a balance for sundry debtors of £2.06million. A review of significant balances suggested that an impairment of doubtful debts of £735k was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £735k to set aside as an allowance.

4. EXCEPTIONAL ITEMS OF INCOME AND EXPENDITURE

There were no exceptional items of income and expenditure during 2013/14..

5. EVENTS AFTER THE BALANCE SHEET DATE

The Statement of Accounts was authorised for issue by the Assistant Director - Finance & Corporate Services on 23 September 2014. Events taking place after this date are not reflected in the financial statements or notes.

6. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

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

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

General Fund Balance

The General Fund is the statutory fund into which all the receipts of an authority are required to be paid and out of which all liabilities of the authority are to be met, except to the extent 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.

2013/14	**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 and impairment of non current assets	(1,776)			1,776
Revaluation losses on Property, Plant and Equipment	(1,208)			1,208
Capital grants and contributions applied	895		655	(1,550)
Capital grants and contributions unapplied	145		(145)	0
Revenue expenditure funded from capital under statute	(1,760)			1,760
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement.	1,297			(1,297)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory provision for the financing of capital investment	173			(173)
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		(1,771)		1,771
Use of the Capital Receipts Reserve to finance new capital expenditure		2,340		(2,340)
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(6)	6		0

2013/14	Usable Reserves			
	General Fund Balance	Capital Receipts Reserves	Capital Grants Unapplied	Movement in Unusable Reserves
	£'000	£'000	£'000	£'000
Adjustment involving the Financial Instruments Adjustments Accounts				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chsargeable in the year in accordance with statutory requirements	(15)			15
Adjustments involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 44)	(5,927)			5,927
Employer's pensions contributions and direct payments to pensioners payable in the year	2,156			(2,156)
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	(554)			554
Adjustment involving the Accumulating Compensated Absences Adjustment Account:				
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	24			(24)
TOTAL ADJUSTMENTS	**(6,556)**	**575**	**510**	**5,471**

2012/13 comparative figures (Restated)	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 and impairment of non current assets	(2,119)			2,119
Revaluation losses on Property, Plant and Equipment				
Amortisation of intangible assets				0
Capital grants and contributions	1,396		52	(1,448)
Capital grants and contributions unapplied	640		(640)	0
Revenue expenditure funded from capital under statute	(2,059)			2,059
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory provision for the financing of capital investment	148			(148)
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	440	(1,277)		837
Use of the Capital Receipts Reserve to finance new capital expenditure		1,594		(1,594)
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(13)	13		0
Adjustments involving the Financial Instruments Adjustments Account:				
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	(22)			22
Adjustments involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 44)	(6,413)			6,413
Employer's pensions contributions and direct payments to pensioners payable in the year	2,530			(2,530)

2012/13 comparative figures	Usable Reserves			
	General Fund Balance	Capital Receipts Reserves	Capital Grants Unapplied	Movement in Unusable Reserves
	£'000	£'000	£'000	£'000
Adjustments involving the Collection Fund Adjustments Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(10)			10
Adjustment involving the Accumulating Compensated Absences Adjustment Account:				
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	71			(71)
TOTAL ADJUSTMENTS	**(5,411)**	**330**	**(588)**	**5,669**

7. OTHER OPERATING INCOME AND EXPENDITURE

Previous Year 2012/13 £'000		Current Year 2013/14 £'000
4,032	Parish council precepts & levies	4,197
13	Payments to the Government Housing Capital Receipts Pool	6
39	(Surplus)/Deficit on Trading Undertaking (Note 36)	44
4,084	**Total Other Operating Expenditure**	**4,247**
(1,051)	Easements and other Capital Receipts	(1,557)
3,033	**Total Other Operating Income and Expenditure**	**2,690**

8. EASEMENTS AND OTHER CAPITAL RECEIPTS

The Council received £1,429,000 in Right to Buy Receipts (compared to £981,000 in 2012/13) and a further £128,000 in other capital receipts (£70,000 in 2012/13).

9. NET LOSS ON DISPOSAL OF FIXED ASSETS

The net loss on disposal of fixed assets amounted to £260,000 (compared to £611,000 in 2012/13).

10. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

Previous Year 2012/13 £'000		Current Year 2013/14 £'000
24	Interest payable and similar charges	32
2,066	Pensions interest cost and expected return on pensions assets	2,994
2,090	**Total Financing and Investment Expenditure**	**3,026**
(425)	Interest receivable and similar income	(436)
1,665	**Total Financing and Investment Income and Expenditure**	**2,590**

11. TAXATION AND NON SPECIFIC GRANT INCOME

Previous Year 2012/13 £'000		Current Year 2013/14 £'000
(13,243)	Council tax income	(12,308)
(6,678)	Non domestic rates	(3,662)
(2,628)	Non-ringfenced government grants	(7,955)
(22,549)	**Total Taxation and Non Specific Grant Income**	**(23,925)**

12. PROPERTY, PLANT AND EQUIPMENT

Movements in 2013/14:

	Land & Buildings £'000	Vehicles, Plant, Furniture & Equipment £'000	Infra-structure Assets £'000	Com-munity Assets £'000	Surplus Assets £'000	Total Property Plant & Equip-ment £'000
Cost or Valuation						
As at 1 April 2013	56,008	5,924	769	680	479	**63,860**
Additions	1,336	958	49			**2,343**
Disposals	(271)	(303)			(36)	**(610)**
Revaluation Increases/(decreases) recognised in the Revaluation Reserve	(368)	(7)		0	(61)	**(436)**
Revaluation Increases/(decreases) recognised in the Surplus/deficit on the Provision of Services	(2,330)	(479)			(59)	**(2,868)**
Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services	51					**51**
Assets reclassified (to)/from Heritage Assets						
Reclassification - Other	238	(93)			(145)	**0**
As at 31 March 2014	**54,664**	**6,000**	**818**	**680**	**178**	**62,340**
Accumulated Depreciation						
As at 1 April 2013	(3,469)	(2,027)	(47)	0	(51)	**(5,594)**
Depreciation charge	(1,043)	(667)	(13)	0	(7)	**(1,730)**
Depreciation written out to the Surplus/Deficit on the Provision of Services	1,255	330			24	**1,609**
Derecognition - Disposals	42	166			4	**212**
Derecognition - Assets reclassified (to)/from Heritage Assets	(15)				15	**0**
Derecognition - Reclassification	(93)	93				**0**
As at 31 March 2014	**(3,323)**	**(2,105)**	**(60)**	**0**	**(15)**	**(5,503)**
Net Book Value						
At 31 March 2014	**51,341**	**3,895**	**758**	**680**	**163**	**56,837**
At 31 March 2013	**52,539**	**3,897**	**722**	**680**	**428**	**58,266**

Comparative Movements in 2012/13:

	Land & Buildings £'000	Vehicles, Plant, Furniture & Equipment £'000	Infra-structure Assets £'000	Com-munity Assets £'000	Surplus Assets £'000	Total Property Plant & Equip-ment £'000
Cost or Valuation						
As at 1 April 2012	53,088	5,984	769	680	211	**60,732**
Adjustment from previous year	790	745				**1,535**
Additions	(925)	(525)				**(1,450)**
Disposals						
Revaluation Increases/(decreases) recognised in the Revaluation Reserve	3,819	(280)				**3,539**
Revaluation Increases/(decreases) recognised in the Surplus/deficit on the Provision of Services	(496)					**(496)**
Assets reclassified (to)/from Held for Sale						
Assets reclassified (to)/from Heritage Assets						
Reclassification - Other	(268)				268	**0**
As at 31 March 2013	**56,008**	**5,924**	**769**	**680**	**479**	**63,860**
Accumulated Depreciation						
As at 1 April 2012	(2,785)	(2,038)	(34)	0	(4)	**(4,861)**
Adjustment from previous year	(979)	(657)	(13)		(15)	**(1,664)**
Depreciation charge						
Depreciation written out to the Revaluation Reserve						
Depreciation written out to the Surplus/Deficit on the Provision of Services	161	306				**467**
Impairment losses/(reversals) recognised in the Revaluation Reserve						
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services						
Derecognition - Disposals	102	362				**464**
Assets reclassified (to)/from Heritage Assets						
Derecognition - Reclassification	32				(32)	
As at 31 March 2013	**(3,469)**	**(2,027)**	**(47)**	**0**	**(51)**	**(5,594)**
Net Book Value						
At 31 March 2013	**52,539**	**3,897**	**772**	**680**	**428**	**58,266**
At 31 March 2012	**50,303**	**3,946**	**735**	**680**	**207**	**55,871**

13. TANGIBLE FIXED ASSETS - MISCELLANEOUS

Assets are depreciated on a straight line basis and are assigned the following useful lives for the purposes of determining depreciation, except where the District Valuer has advised differently:

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

14. FIXED ASSET VALUATION

All fixed assets 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 Charles Cox, 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 1st April 2013.

15. CAPITAL COMMITMENTS

There were no significant capital contracts that South Somerset District Council had entered into as at the 31 March 2014.

16. CONSTRUCTION CONTRACTS

At 31 March 2014 the Authority had no construction contracts in progress.

17. INTANGIBLE ASSETS

The Authority 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 Authority. 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 2013	**31 March 2014**
	Software £'000	**Software £'000**
Balance at start of year:		
• Gross carrying amounts	395	458
• Accumulated amortisation	(209)	(329)
Net carrying amount at start of year	**186**	**129**
Additions	63	84
Disposals	0	(5)
Amortisation for the period	(120)	(46)
Amortisation on disposal	0	0
Net Carrying amount at end of year	**129**	**162**
Comprising:		
• Gross carrying amounts	458	537
• Accumulated amortisation	(329)	(375)
Total Intangible Assets	**129**	**162**

18. INVESTMENT PROPERTIES

The Authority currently do not hold investment properties.

19. HERITAGE ASSETS

Restated 31 March 2013 £'000		31 March 2014 £'000
1,614	Balance at start of year	1,614
0	Revaluations / (Impairments)	5
1,614	**Total Heritage Assets**	**1,619**

20. LONG AND SHORT TERM INVESTMENTS

The investments as at 31 March 2014 consist of:

31 March 2013 £'000		31 March 2014 £'000
	Long Term Investments	
0	Euro Sterling and World Bonds > 1 year to maturity	4,646
0	Term Deposits > I year to maturity	2,000
2	Government Stocks	2
2	**Total Long Term Investments**	**6,648**
	Short Term Investments	
18,515	Euro Sterling and World Bonds < 1 year to maturity	17,057
17,000	Term Deposits < 1 year to maturity	12,000
35,515	**Total Short Term Investments**	**29,057**
35,517	**Total Investments**	**35,705**

21. LONG TERM DEBTORS

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

31 March 2013 £'000		31 March 2014 £'000
158	Loans agreed under SSDC loans policy	99
41	Mortgages	26
293	Right to receipts - long term lease	290
73	Car/bike/learning loans	58
0	Other Long Term Debtors	22
565	**Total Long Term Debtors**	**495**

Further information relating to long term debtors is contained within Note 31 on Financial Instruments.

22. SHORT-TERM DEBTORS

31 March 2013 £'000		31 March 2014 £'000
1,642	Other Government Bodies	834
697	Other Local Authorities	484
2	NHS Bodies	2
88	Public Corporations and Trading Funds	0
3,732	Other Entities and Individuals	4,489
6,161	**Total Short-term Debtors**	**5,809**

23. 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 2013 £'000		31 March 2014 £'000
9	Cash held by the Authority	9
(464)	Bank current accounts	(845)
3,810	Short-term deposits with Business Reserve accounts and Money Market Funds	7,690
3,355	**Total Cash and Cash Equivalents**	**6,854**

24. SHORT-TERM CREDITORS

31 March 2013 £'000		31 March 2014 £'000
(416)	Other Government Bodies	(257)
(350)	Other Local Authorities	(621)
(3)	NHS Bodies	0
0	Public Corporations and Trading Funds	0
(2,376)	Other Entities and Individuals	(3,024)
(3,145)	**Total Short-term Creditors**	**(3,902)**

25. LONG TERM LIABILITIES - CREDITORS

31 March 2013 £'000		31 March 2014 £'000
(90)	Long-term Liabilities - Creditors	**(42)**
(90)	**Total Long-term Liabilities - Creditors**	**(42)**

The long-term liabilities - creditors relates to garden waste income for 2014/15 which was paid in advance.

26. PROVISIONS

31 March 2013 £'000		Additional Provisions in 2013/14	Applied Provisions in 2013/14	31 March 2014 £'000
25	MMI	0	25	0
0	NNDR Provisions for Appeals	(950)	0	(950)
25		**(950)**	**25**	**(950)**

27. DEVELOPERS CONTRIBUTION DEFERRED

31 March 2013 £'000		31 March 2014 £'000
(2,601)	Balance at start of year	(2,568)
(1,103)	Additional Deposits	(436)
1,136	Applied Deposits	285
(2,568)	**Total Developers Contribution Deferred**	**(2,719)**

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

28. USABLE RESERVES

31 March 2013 £'000		31 March 2014 £'000
(4,353)	General Fund Balance	(5,708)
(6,629)	Earmarked Reserves	(8,435)
(36,971)	Capital Receipts Reserve	(36,396)
(873)	Capital Grants Unapplied	(362)
(587)	Authority's Share of Joint Venture	(592)
(49,413)	**Total Usable Reserves**	**(51,493)**

Capital Receipts Reserve

31 March 2013 £'000		31 March 2014 £'000
(37,301)	Balance of Usable Receipts at 1 April	(36,971)
(1.277)	Receipts from Sale of Assets	(1,771)
1,594	Receipts applied to finance Capital Expenditure	2,340
13	Amount payable to the housing capital receipt pool	6
(36,971)	**Total Capital Receipts Reserve**	**(36,396)**

Capital Grants Unapplied

31 March 2013 £'000		31 March 2014 £'000
(285)	Balance at start of year	(873)
(640)	Additional Capital Grants recognised through Comprehensive Income and Expenditure Statement	(145)
52	Applied Deposits	656
(873)	**Total Capital Grants Unapplied**	**(362)**

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 2013/14. All earmarked reserves are revenue balances.

	Balance as at 31 March 2012 £'000	Transfers in 2012/13 £'000	Transfers out 2012/13 £'000	Balance as at 31 March 2013 £'000	Transfers in 2013/14 £'000	Transfers out 2013/14 £'000	Balance as at 31 March 2014 £'000
Capital Fund	(1,663)	(160)	0	(1,823)	(94)	0	(1,917)
Cremator Replacement Reserve	(300)	0	0	(300)	0	0	(300)
Burial CAMEO Reserve	(330)	(33)	0	(363)	0	0	(363)
Elections Reserve	(72)	(39)	0	(111)	(83)	0	(194)
Community Projects Reserve	(8)	0	5	(3)	0	3	0
Risk Management Reserve	(12)	0	0	(12)	0	0	(12)
Wincanton Sports Centre Reserve	0	(21)	0	(21)	0	0	(21)
Athletics Track Repairs	(44)	(18)	0	(62)	(17)	0	(79)
Local Plan Inquiry Reserve	(115)	(10)	1	(124)	0	83	(41)
Town Centre Management	(6)	0	6	0	0	0	0
Planning Delivery Reserve	(74)	(29)	43	(60)	0	28	(32)
Save to Earn Reserve	(50)	0	0	(50)	0	0	(50)
Bristol to Weymouth Rail Reserve	(18)	0	1	(17)	(7)	2	(22)
Local Authority Business Growth Initative Reserve	(37)	0	0	(37)	0	0	(37)
Yeovil Vision Reserve	0	(80)	0	(80)	(10)	0	(90)
Voluntary Redundancy/ Retirement Fund	(538)	0	176	(362)	(89)	18	(433)
Insurance Fund	(44)	(5)	3	(46)	(6)	4	(48)
Treasury Management Reserve	(500)	0	0	(500)	0	500	0
Revenue Grant Reserve	(381)	(273)	109	(545)	(238)	236	(547)
Eco-Town Reserve	(119)	(6)	0	(125)	0	0	(125)
Housing Benefits Reserve	(328)	(247)	146	(429)	(187)	39	(577)
Closed Churchyards Reserve	(14)	0	4	(10)	0	2	(8)
Deposit Guarantee Claims Res	(18)	(3)	0	(21)	0	4	(17)
Park Homes Replacement Reserve	(49)	(23)	0	(72)	(32)	0	(104)
Community Justice Panel	(27)	0	27	0	0	0	0
New Homes Bonus	(714)	(1,278)	726	(1,266)	(468)	52	(1,682)
Car Park Income	(8)	(17)	0	(25)	0	20	(5)
Health Inequalities	(48)	(44)	39	(53)	(18)	43	(28)
Planning Obligations Administration Reserve	(12)	(13)	0	(25)	(6)	0	(31)
Local Strategic Partnership Reserve	0	(62)	0	(62)	(9)	0	(71)
Artificial Grass Pitch Reserve	0	0	0	0	(21)	0	(21)
Business Support Scheme	0	0	0	0	(500)	120	(380)
Flooding Reserve	0	0	0	0	(100)	0	(100)
Sharing Office Space Reserve	0	0	0	0	(100)	12	(88)
Infrastructure Reserve	0	0	0	0	(1000)	0	(1,000)
Into Somerset	(21)	(4)	0	(25)	0	13	(12)
Total Reserves	**(5,550)**	**(2,365)**	**1,286**	**(6,629)**	**(2,985)**	**1,179**	**(8,435)**

29. UNUSABLE RESERVES

31 March 2013 £'000		31 March 2014 £'000
(17,023)	Revaluation Reserve	(16,186)
7	Available for Sale financial Instruments Reserve	(45)
(33,643)	Capital Adjustment Account	(32,904)
(50)	Financial Instruments Adjustment Account	(34)
68,474	Pensions Reserve	61,814
(37)	Collection Fund Adjustment Account	517
314	Accumulating Compensated Absences Adjustment Account	289
(361)	Deferred Capital Receipts	(338)
17,681	**Total Unusable Reserves**	**13,113**

Revaluation Reserve

The Revaluation Reserve holds the unrealised revaluation gains which have arisen, since 1 April 2007, from holding plant, property 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 2013 £'000		31 March 2014 £'000
(13,661)	Revaluation Reserve at 1 April	(17,023)
(4,159)	Revaluation gains on fixed assets	(585)
314	Downward revaluation on fixed assets	1,017
356	Disposals of fixed assets	14
127	Current value depreciation transferred to Capital Adjustment Account	391
(17,023)	**Total Revaluation Reserve**	**(16,186)**

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 2013 £'000		31 March 2014 £'000
(3)	Balance as at 1 April	7
17	Loss on derecognition/maturity	(8)
(7)	Revaluation of Assets at 31 March	(44)
7	**Total Available-for-Sale Financial Instruments Reserve**	**(45)**

Capital Adjustment Account

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

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains. Note 5 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

31 March 2013			31 March 2014	
£'000	£'000		£'000	£'000
	(34,976)	Balance at 1 April		**(33,643)**
(1,594)		Capital Expenditure financed from Capital Receipts	(2,340)	
(127)		Current value depreciation transferred from Revaluation Reserve	(391)	
(148)		Minimum Revenue Provision	(173)	
(1,448)		Capital Grants and Contributions Applied	(1,550)	
	(3,317)	Less:		**(4,454)**
2,059		Write down of Revenue Expenditure funded from Capital under Statute	1,761	
407		Carrying amount of assets disposed	388	
1,784		Depreciation	1,776	
335		Impairment	1,208	
65		Repayment of capital loans	60	
	4,650			**5,193**
	(33,643)	**Total Capital Adjustment Account**		**(32,904)**

Deferred Capital Receipts

31 March 2013 £'000		31 March 2014 £'000
(389)	Balance at start of year	(361)
25	Repayment of mortgages on sale of Council Houses	28
3	Right to Receipt	(5)
(361)	**Total Deferred Capital Receipts**	**(328)**

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account holds the accumulated difference between the financing costs included in the Comprehensive Income and Expenditure Statement and the accumulated financing costs required in accordance with regulations to be charged to the General Fund Balance

31 March 2013 £'000		31 March 2014 £'000
(72)	Balance at start of year	(50)
9	Soft Loans advanced revalued to Net Present Value	7
(2)	Interest on Soft Loans credited to Income & Expenditure Account	(6)
15	Discount on early repayment of loan	15
(50)	**Total Financial Instruments Adjustment Account**	**(34)**

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

31 March 2013 Restated £'000		31 March 2014 £'000
65,527	Balance at start of year	68,474
3,883	Contribution from General Fund	3,772
(936)	Actuarial (Gain)/Loss	(10,432)
68,474	**Total Pensions Reserve**	**61,814**

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 2013 £'000		31 March 2014 £'000
(47)	Balance at start of year	(37)
0	Collection Fund Adjustment in year for Council Tax	(231)
10	Collection Fund Adjustment in year for non-domestic rates	785
(37)	**Total Collection Fund Adjustment Account**	**517**

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. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfer to or from the Account.

31 March 2013 £'000			31 March 2014 £'000	
	385	**Balance at start of year**		314
(385)		Settlement or cancellation of accrual made at the end of preceding year	(314)	
314		Amounts accrued at the end of the current year	290	
	(71)	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		(24)
	314	**Total Accumulating Compensated Absences Adjustment Account**		**290**

30. FINANCIAL INSTRUMENTS

The authority's accounting policies relating to financial instruments are in accordance with the 2013/14 Code of Practice on Local Authority Accounting, in order to comply with IAS 39, IAS 32 and IFRS 7.

Financial Instruments Balances

The financial assets and financial liabilities are made up of the following categories of financial instruments.

31 March 2013			31 March 2014	
Long Term £'000	**Current £'000**		**Long Term £'000**	**Current £'000**
565	18,149	Loans & Receivables	2,495	12,128
2	17,515	Available-for-sale financial assets	4,648	17,057
0	3,355	Cash and Cash Equivalents	0	6,854
0	885	Trade Debtors	0	1,325
567	**39,904**	**Total Financial Assets**	**7,143**	**37,364**
(90)	(2,100)	Trade Creditors	(42)	(1,287)
0	(236)	Capital Creditors	0	(123)
(267)	(120)	Finance Lease	(349)	(163)
(357)	**(2,456)**	**Total Financial Liabilities at amortised cost**	**(391)**	**(1,573)**

Financial Instruments Gains/Losses

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

31 March 2014	**Financial Liabilities**	**Financial Assets**		**Total**
	Liabilities measured at amortised cost £'000	**Loans and receivables £'000**	**Available-for-sale assets £'000**	**£'000**
Interest expense	32	0	0	
Losses on derecognition	0	0	0	
Interest payable and similar charges	32			32
Interest income		347	90	
Gains on derecognition		0	0	
Interest and investment income		**347**	**90**	437
Gains on revaluation	0	0	(71)	
Losses on revaluation	0	0	20	
(Surplus)/Deficit arising on revaluation of financial assets	0	0	**(51)**	
Total Net (gain)/loss for the year	32	347	39	

For the purpose of comparison, the gains and losses recognised in the Comprehensive Income & Expenditure Statement in relation to financial instruments for 2012/13 are made up as follows:

31 March 2013	**Financial Liabilities**	**Financial Assets**		**Total**
	Liabilities measured at amortised cost £'000	**Loans and receivables £'000**	**Available-for-sale assets £'000**	**£'000**
Interest expense Losses on derecognition	24			
Interest payable and similar charges	24			24
Interest income Gains on derecognition		(377)	(48)	(425)
Interest and investment income		**(377)**	**(48)**	
Gains on revaluation Losses on revaluation			(7) 17	
(Surplus)/Deficit arising on revaluation of financial assets			**10**	
Total Net (gain)/loss for the year	24	(377)	(38)	

Fair Value of Assets and Liabilities carried at amortised cost

Financial assets and liabilities represented by loans and receivables are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments. For instruments maturing within twelve months or with variable interest rates the carrying amount is assumed to approximate to fair value. The fair values calculated are as follows:

Carrying Amount 31 March 2013 £'000	**Fair Value 31 March 2013 £'000**		**Carrying Amount 31 March 2014 £'000**	**Fair Value 31 March 2014 £'000**
18,714	18,714	Loans and receivables	14,623	14,623

Nature and Extent of Risks arising from Financial Instruments

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

- Credit risk - the possibility that other parties might fail to pay amounts due to the authority
- Liquidity risk - the possibility that the authority might not have funds available to meet its commitments to make payments
- Market risk - the possibility that financial loss might arise for the authority as a result of changes in such measures as interest rates and stock market movements

The authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, under policies approved by the Council in the annual Treasury Management Strategy Statement and Annual Investment Strategy. Core to this strategy is minimising risk and safeguarding the overall capital sum. In addition to this there is a need to maintain stability of returns in managing the Council's budget and to balance returns through a diversity of instruments with a degree of stability through fixed rate of return investments. To obtain a full copy of this strategy, please refer to the website or contact us on 01935 462462.

The authority has adopted CIPFA's Treasury Management in the Public Services: Code of Practice and has set treasury management indicators to control key financial instrument risks in accordance with CIPFA's Prudential Code. The Council provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash through documented Treasury Management Practices. Regular reports are made to the Audit Committee and twice a year to Full Council. The Treasury Management and Investment Strategy is approved by Full Council.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the authority's customers. The Council's strategy for investments was based upon minimising risk and safeguarding the capital sum. This was maintained by following the Authority's counterparty policy as set out in its Treasury Management Strategy Statement for 2013/14 which defined "high credit quality" organisations as those having a long-term credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher.

Investments with banks and building societies were primarily fixed-rate term deposits and certificates of deposit. The maximum duration of these investments was 12 months in line with the prevailing credit outlook during the year as well as market conditions. In addition, the Authority invested £4m with organisations and pooled funds without credit ratings, these included Payden and CCLA (Property fund) following external assessment and advice from the Authority's treasury management adviser, Arlingclose.

Where the authority considers there is a significant risk of default in mortgages, car loans, bike loans, loans for learning or miscellaneous loans then an appropriate provision for bad debts are calculated.

Exposure to default and non-collection

Over the past five years there has been no historical experience of default on deposits with banks and financial institutions or bonds. Therefore our estimated maximum exposure to default and non collection as at 31 March 2014 for these investments is nil. (Nil for 2012/13). Customers are assessed taking into account their financial position, past experience and other factors.

The following analysis summarised the authority's potential maximum exposure to credit risk, based on experience of default and non collection over the last five financial years, adjusted to reflect current market conditions.

Estimated maximum exposure at 31 March 2013 £'000		**Nominal Amount invested at 31 March 2014 £'000**	**Historical experience of default %**	**Historical experience adjusted for market conditions at 31 March 2014 %**	**Estimate maximum exposure to default and non collection at 31 March 2014 £'000**
0	Deposits with Banks & Financial Institutions	27,190	0	0	0
0	Deposits with other Local Authorities	5,000	0	0	0
0	Bonds/Gilts	10,752	0	0	0
1,287	Customers	2,065	35.6	35.6	735
1,287	**Total maximum exposure to default and non collection**	**45,007**			**735**

The past due amount after impairment can be analysed by age as follows:

31 March 2013 Trade Debtors not Impaired £'000		31 March 2014 Trade Debtors £'000	31 March 2014 Impairment £'000	31 March 2014 Trade Debtors not Impaired £'000
427	Under 60 Days	724	0	724
22	61 - 120 Days	155	0	155
324	121 - 365 Days	384	178	206
28	Over 1 Year	807	567	240
801	**Total Trade Debtors not Impaired**	**2,070**	**745**	**1,325**

Liquidity Risk

South Somerset District Council ensure 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

Market risk – Interest rate risk

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

Borrowings at variable rates - the interest expense 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 assets will fall

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Comprehensive Income and Expenditure Statement or Movement in Reserves Statement. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Comprehensive Income and Expenditure Statement and affect the General Fund Balance pound for pound. Movements in the fair value of fixed rate available-for-sale investments will be reflected in the Movement in Reserves Statement.

The authority has a number of strategies for managing interest rate risk. The policy is to have up to 100% of investments in variable rate instruments to cover against market fluctuations.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget quarterly during the year. This allows any adverse changes to be accommodated

According to this assessment strategy, at 31 March 2014, if interest rates had been 1% higher with all other variables held constant, there would have been an increase in interest receivable on investments of approximately £509,678.

Market risk – Price risk

The authority does not invest in equity shares so is not exposed to gains or losses arising from movements in the price of shares.

Market risk – Foreign exchange risk

The authority has no 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 Authority are denominated in Pound Sterling.

31. CASH FLOW STATEMENT - OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

Previous Year 2012/13 £'000		Current Year 2013/14 £'000
(502)	Interest received	342
(24)	Interest paid	(32)
(526)	**Net Cash Flows from Operating Activities Relating to Interest**	**310**

Previous Year 2012/13 £'000		Current Year 2013/14 £'000
1,784	Depreciation and amortisation	1,776
335	Impairment and downward valuations	1,208
1,251	Increase/decrease in creditors	526
(681)	Increase/decrease in debtors	(96)
39	Increase/decrease in inventories	24
2,983	Movement in pension liability	3,771
638	Carrying amounts of non-current assets and non-current assets held for sale, sold or derecognised	389
0	Contributions to/from provisions	925
(153)	Other non-cash items charged to the net surplus or deficit on the provision of services	(106)
6,196	**Total Adjustments for Non-Cash Movements**	**8,417**

Previous Year 2012/13 £'000		Current Year 2013/14 £'000
(1,249)	Proceeds from the sale of property, plant and equipment and intangible assets	(1,748)
(1,968)	Any other items for which the cash effects are investing or financing cash flows	(1,026)
(3,217)	**Total Adjustments for Investing and Financing Activities**	**(2,774)**

32. CASH FLOW STATEMENT - INVESTING ACTIVITIES

Previous Year 2012/13 £'000		Current Year 2013/14 £'000
(1,270)	Purchase of property, plant and equipment, investment property and intangible assets	(2,543)
(88,202)	Purchase of short-term and long-term investments	(53,232)
(91)	Other payments for investing activities	(88)
1,125	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	1,248
87,715	Proceeds from sale of short-term and long-term investments	53,205
2,179	Other receipts from investing activities	1,348
1,456	**Net Cash Flows from Investing Activities**	**(62)**

33. CASH FLOW STATEMENT - FINANCING ACTIVITIES

Previous Year 2012/13 £'000		Current Year 2013/14 £'000
15	Cash receipts of short and long-term borrowing	15
(58)	Other receipts from financing activities	1,321
(148)	Cash payments for the reduction of the outstanding liabilities relating to finance leases	(173)
0	Other payments for financing activities	0
(191)	**Net Cash Flows from Financing Activities**	**1,163**

34. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Best Value Accounting Code of Practice. However, decisions about resource allocation are taken by the Authority's Executive on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to the services in the Comprehensive Income and Expenditure Statement)
- The cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year.
- expenditure on some support services is budgeted for centrally and not charged to directorates.

The income and expenditure of the Authority's principal directorates recorded in the budget reports for the year is as follows:

Directorate Income and Expenditure 2013/14	Chief Executive Directorate £'000	Operations & Customer Focus £'000	Place & Performance £'000	TOTAL £'000
Fees, charges & other service income	(1,480)	(8,977)	(1,982)	(12,439)
Government Grants	(47,542)	(764)	(321)	(48,627)
Total Income	**(49,022)**	**(9,741)**	**(2,303)**	**(61,066)**
Employee expenses	4,377	6,911	3,722	15,010
Other service expenses	48,687	12,748	2,495	63,930
Total Expenditure	**53,064**	**19,659**	**6,217**	**78,940**
Net Expenditure	**4,042**	**9,918**	**3,914**	**17,874**

Directorate Income and Expenditure 2012/13 Comparative Figures	Chief Executive Directorate £'000	Operations & Customer Focus £'000	Place & Performance £'000	TOTAL £'000
Fees, charges & other service income	(1,532)	(7,688)	(1,811)	(11,031)
Government Grants	(59,002)	(1,569)	(302)	(60,873)
Total Income	**(60,534)**	**(9,257)**	**(2,113)**	**(71,904)**
Employee expenses	4,365	7,136	4,007	15,508
Other service expenses	59,726	11,817	1,170	72,713
Total Expenditure	**64,091**	**18,953**	**5,177**	**88,221**
Net Expenditure	**3,557**	**9,696**	**3,064**	**16,317**

Reconciliation of Directorates' Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

Previous Year 2012/13 £'000		Current Year 2013/14 £'000
16,317	Net expenditure in the Directorate Analysis	17,874
4,170	Amounts reported to management not included on Costs of Services in Compehensive Income and Expenditure Statement	3,907
20,487	**Cost of Services in Comprehensive Income and Expenditure Statement**	**21,781**

Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

2013/14	Directorate Analysis	Amounts not reported to management for decision making	Amounts not included in CIES	Allocation of Recharges	Cost of Services	Corporate Amounts	Total
	£'000	£'000	£'000	£'000	**£'000**	£'000	**£'000**
Fees, charges & other service income	(11,771)		2,308	(13,087)	**(22,550)**	(2,300)	**(24,850)**
Interest and Investment income	(437)	(6)	439		**(4)**	(437)	**(441)**
Income from council tax	(232)		245		**13**	(12,308)	**(12,295)**
Government grants and contributions	(48,627)		255		**(48,372)**	(11,617)	**(59,989)**
Total Income	**(61,067)**	**(6)**	**3,247**	**(13,087)**	**(70,913)**	**(26,662)**	**(97,575)**
Employee expenses	15,008	(18)	(3,144)		**11,846**	3,144	**14,990**
Other service expenses	63,907	(3,226)	4,192		**64,873**	552	**65,425**
Support Service recharges				13,087	**13,087**	86	**13,173**
Depreciation, amortisation and impairment		2,984	(89)		**2,895**	0	**2,895**
Interest Payments	24				**24**	32	**56**
Precepts & Levies			(32)		**(32)**	4,197	**4,165**
Payments to Housing Capital Receipts Pool		6	(6)		**0**	6	**6**
Gain or Loss on Disposal of Fixed Assets		260	(260)		**0**	260	**260**
Total Expenditure	**78,939**	**6**	**661**	**13,087**	**92.693**	**8,127**	**100,820**
Surplus or deficit on the provision of services	**17,872**	**0**	**3,908**	**0**	**21,780**	**(18,535)**	**3,245**

2012/13 Comparatives	Directorate Analysis	Amounts not reported to management for decision making	Amounts not included in CIES	Allocation of Recharges	Cost of Services	Corporate Amounts	Total
	£'000	£'000	£'000	£'000	**£'000**	£'000	**£'000**
Fees, charges & other service income	(10,973)		1,747	(12,050)	**(21,276)**	(1,723)	**(22,999)**
Interest and Investment income	(57)	(2)	425		**366**	(425)	**(59)**
Income from council tax			4		**4**	(13,243)	**(13,239)**
Government grants and contributions	(60,874)		2,035		**(58,839)**	(9,306)	**(68,145)**
Total Income	**(71,904)**	**(2)**	**4,211**	**(12,050)**	**(79,745)**	**(24,697)**	**(104,442)**
Employee expenses	15,508	(62)	(2,220)		**13,226**	2,220	**15,446**
Other service expenses	72,689	(2,678)	3,063		**73,074**	326	**73,400**
Support Service recharges			(236)	12,050	**11,814**	231	**12,045**
Depreciation, amortisation and impairment		2,118			**2,118**	0	**2,118**
Interest Payments	24		(24)		**0**	24	**24**
Precepts & Levies						4,032	**4,032**
Payments to Housing Capital Receipts Pool		13	(13)		**0**	13	**13**
Gain or Loss on Disposal of Fixed Assets		611	(611)		**0**	611	**611**
Total Expenditure	**88,221**	**2**	**(41)**	**12,050**	**100,232**	**7,457**	**107,689**
Surplus or deficit on the provision of services	**16,317**	**0**	**4,170**	**0**	**20,487**	**(17,240)**	**3,247**

35. TRADING OPERATIONS

The Council operates a number of trading activities. The financial results of these activities are as follows:

Previous Year		Current Year		
2012/13 (Surplus)/Deficit £'000		2013/14 Expenditure £'000	2013/14 Income £'000	2013/14 (Surplus)/ Deficit £'000
(4)	Properties	289	(266)	23
36	Markets	37	(42)	(5)
84	Catering	180	(62)	118
(77)	Careline	231	(329)	(98)
39	**Total Trading Accounts**	**737**	**(699)**	**38**

36. MEMBERS' ALLOWANCES

Previous Year 2012/13 £'000		Current Year 2013/14 £'000
370	Basic Allowance	373
113	Special Responsibility Allowance	121
19	Expenses	18
502	**Total Members Allowance**	**512**

Further information on Members' allowances is available on our website and may also be obtained from the Human Resources department.

37. OFFICERS' REMUNERATION

During the 2013/14 financial year the number of officers who received remuneration, which includes salary, leased car and termination payments, in excess of £50,000 were as follows:

Number of Employees 2012/13			Remuneration Band	Number of Employees 2013/14		
Total	Left during year	Compensation for loss of office		Total	Left during year	Compensation for loss of office
4	0		£50,000 - £54,999	5		
6	2	Yes	£55,000 - £59,999	0		
2	0		£60,000 - £64,999	2		
1	0		£65,000 - £69,999	2	1	Yes
0	0		£70,000 - £74,999	2		
2	0		£75,000 - £79,999	0		
0	0		£80,000 - £84,999	0		
0	0		£85,000 - £89,999	0		
0	0		£90,000 - £94,999	1		
1	0		£95,000 - £99,999	1		
1	0		£100,000 - £104,999	0		

The table above includes the remuneration for Senior Officers as detailed overleaf.

Senior Officers
A senior officer is an employee whose salary is more than £150,000 per year; or one whose salary is at least £50,000 (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), their direct reports (other than administration staff), and statutory chief officers. For South Somerset District Council, the senior employees are the Strategic Directors and the Assistant Directors with statutory roles.

Senior Officers Emoluments

Current Year 2013/14 Post Title	Name of officer	Salary (including Fees & Allowances) £'000	Benefits in kind £'000	Total Remuneration (excl. Pension Contribution) £'000	Pension Contributions £'000	Total Remuneration (inc. Pension Contribution) £'000
Chief Executive	M Williams	61	5	66	12	78

Previous Year 2012/13 Post Title	Name of officer	Salary (including Fees & Allowances) £'000	Benefits in kind £'000	Total Remuneration (excl. Pension Contribution) £'000	Pension Contributions £'000	Total Remuneration (inc. Pension Contribution) £'000
Chief Executive	M Williams	61	4	65	11	76

Mr Williams joined South Somerset District Council as a joint chief Executive, of both South Somerset District Council and East Devon District Council, on 22 March 2010 with a 50% contribution to East Devon District Council, as he is paid by that authority.

Current Year 2013/14 Post Title	Salary (including Fees & Allowances) £'000	Expense Allowance £'000	Benefits in kind £'000	Total Remuneration (excl. Pension Contribution) £'000	Pension Contributions £'000	Total Remuneration (inc. Pension Contribution) £'000
Strategic Director (Place & Performance)	97	1	0	**98**	18	**116**
Strategic Director (Operations & Customer Focus)	93	1	0	**94**	18	**112**
Assistant Director (Finance & Corporate Services)	71	1	0	**72**	14	**86**
Assistant Director (Legal & Corporate Services)	71	1	0	**72**	14	**86**
TOTAL	**332**	**4**	**0**	**336**	**64**	**400**

Previous Year 2012/13 Post Title	Salary (including Fees & Allowances) £'000	Expense Allowance £'000	Benefits in kind £'000	Total Remu-neration (excl. Pension Contribution) £'000	Pension Contri-butions £'000	Total Remu-neration (inc. Pen-sion Contri-bution) £'000
Strategic Director (Place & Performance)	97	1	2	**100**	17	**117**
Strategic Director (Operations & Customer Focus)	93	1	3	**97**	17	**114**
Assistant Director (Finance & Corporate Services)	70	1	2	**73**	13	**86**
Assistant Director (Legal & Corporate Services)	70	1	5	**76**	13	**89**
TOTAL	**330**	**4**	**12**	**346**	**60**	**406**

Exit Packages
The total cost of £106,000 in the table below for 2013/14 (£291,000 for 2012/13) 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 Exit Packages		Total Number of Exit Packages		Total Cost of Exit Packages	
	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13 £'000	2013/14 £'000
£0 - £20,000	4	1	7	6	11	7	144	70
£20,001 - £40,000	0	0	3	1	3	1	79	36
£40,001 - £60,000	0	0	0	0	0	0	0	0
£60,001 - £80,000	1	0	0	0	1	0	68	0
TOTAL	**5**	**1**	**10**	**7**	**15**	**8**	**291**	**106**

Termination Benefits
The authority terminated the contracts of 8 employees in 2013/14, incurring liabilities of £106k (£291k in 2012/13). These officers were made redundant as part of of the Authority's rationalisation of services.

38. AUDIT COSTS

In 2013/14 South Somerset District Council incurred the following fees relating to external audit and inspection:

Previous Year 2012/13 £'000		Current Year 2013/14 £'000
61	Fees payable for external audit services carried out by the appointed auditor	65
21	Fees payable for the certification of grant claims and returns	17
1	Fees payable in respect of other services provided by the Audit Commission	1
83	**Total Audit Costs**	**83**

39. LONG TERM CONTRACTS

South Somerset District Council has entered into the following long-term contracts for the provision of core services.

Contractor	Services Provided	Date of Expiry of Contract	Payments 2013/14 £'000	Ongoing Commitment £'000
Leisure East Devon	Leisure Service	March 2016	94	236
The Hub	Resource Centre	March 2018	67	153
Somerset Waste Partnership	Refuse Collection and Support Services	October 2021	4,589	31,338
South West Audit Partnership	Internal Audit	On-going	117	106 per year *

* The South West Audit Partnership from 1st April 2013 became a company limited by guarantee. The current contract is on-going and requires a one year notice period to terminate.

40. GRANT INCOME

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2013/14.

Previous Year 2012/13 £'000		Current Year 2013/14 £'000
2,035	Capital Grants	1,040
1,379	New Homes Bonus	2,334
0	Business Support Scheme	500
214	Troubled Families	235
224	Cost of Collection - Business Rates	223
224	Homelessness Grants	157
374	Miscellaneous Grants	799
4,450	**Total Other Government Grants**	**5,288**
56,424	Housing Benefits	45,927
134	Revenue Support Grant (UK Government)	4,832
61,008	**Total Government Grants**	**56,047**

41. RELATED PARTY TRANSACTIONS

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

Precepts from Other Local Authorities are detailed on page 69 in Note 1 to the Collection Fund and receipts from Central Government are detailed above in Note 39 to the Core Financial Statements.

Transactions to and from the Pension Fund are detailed on pages 63 to 67 in Note 44 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 2013/14	SSDC Councillor
Crewkerne Aqua Centre	£600,000 loan advanced in previous years. Balance at 31st March 2014 is £150,000	Cllr A Singleton
Parrett Drainage Board	£53,073 as a special levy	Cllr R Mills Cllr P Palmer Cllr M Lewis
Huish Episcopi School Governing Body	£19,358 Grant	Cllr S Pledger
Wincanton Community Venture (Balsam Centre)	£17,561 in funding support and grant	Cllr T Carroll
South Somerset Disability Forum	£9,000 in grant	Cllr J Calvert Cllr D Norris Cllr K Turner
South West Councils	£11,993 Subscriptions & training courses	Cllr T Carroll
Yeovil District Hospital NHS Foundation Trust	£27,770 Occupational Health Service	Cllr L Boucher

42. CAPITAL EXPENDITURE AND FINANCING

Previous Year 2012/13			Current Year 2013/14	
£'000	**£'000**		**£'000**	**£'000**
	9,503	**Opening Capital Financing Requirement**		9,497
		Capital Expenditure		
63		Intangible Non-Current Assets	84	
1,100		Non-Current Assets	2,344	
2,060		Revenue Expenditure funded from Capital under Statute	1,760	
	3,223			4,188
		Sources of Finance		
(1,594)		Use of Capital Receipts	(2,340)	
(1,487)		Government Grants & Other Contributions	(1,550)	
0		Unwinding of Finance Liability	0	
(148)		Minimum Revenue Provision	(173)	
	(3,229)			(4,063)
	9,497	**Closing Capital Financing Requirement**		**9,622**

43. 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 2013 £'000		31 March 2014 £'000
358	Property	0
3,713	Vehicles, Plant, Furniture and Equipment	468
4,071	**Total Carrying Amount of Leases**	**468**

The Authority 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 Authority and finance costs that will be payable by the Authority in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

31 March 2013 £'000		31 March 2014 £'000
383	Finance lease liabilities (net present value of minimum lease payments)	511
47	Finance costs payable in future years	32
430	**Total Minimum Lease Payments**	**543**

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

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2013 £'000	**31 March 2014 £'000**	**31 March 2013 £'000**	**31 March 2014 £'000**
Not later than one year	136	183	120	163
Later than one year and not later than five years	269	360	255	349
Later than five years	12	0	12	0
Total Finance Lease Payments	**417**	**543**	**387**	**512**

Operating Leases

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

31 March 2013 £'000				31 March 2014 £'000		
Vehicles, Plant & Equipment	Property	**Total**		Vehicles, Plant & Equipment	Property	**Total**
5	27	**32**	Not later than one year	6	22	**28**
6	89	**95**	Later than one year and not later than five years	0	89	**89**
0	981	**981**	Later than five years	0	959	**959**
11	**1,097**	**1,108**	**Total Operating Lease Payments**	**6**	**1,070**	**1,076**

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

Previous Year 2012/13 £'000		Current Year 2013/14 £'000
	Minimum lease payments	
198	• Vehicles, Plant and Equipment	92
37	• Property	39
235	**Total Operating Lease Payments Charged to the Comprehensive Income and Expenditure Statement**	**131**

Authority as Lessor

Operating Leases

The Council leases out property and equipment under operating leases for the 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 2013/14 totalled £403,000 (2012/13 £654,000).

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

	31 March 2013 £'000	**31 March 2014 £'000**
Not later than one year	32	28
Later than one year and not later than five years	94	89
Later than five years	981	959
Total Finance Lease Payments	**1,107**	**1,076**

44. IMPAIRMENT LOSSES

During 2013/14, the Authority has recognised an impairment loss of £2,227k (£581k in 2012/13). The significant impairments include £595k for car parks, £200k for Council Offices, £105k for Birchfield Recreation Ground and £96k for Public Conveniences.

The impairment losses of £1,208k have been charged to various service lines on the Comprehensive Income and Expenditure Statement and downward revaluation of £1,018k has been charged to the Revaluation Reserve.

45. 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 that needs to be disclosed 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 2014 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

SSDC 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 SSDC 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 2012/13			Current Year 2013/14	
£'000	**£'000**		**£'000**	**£'000**
		Comprehensive Income and Expenditure Statement		
		Cost of Services:		
3,375		• Current service costs	2,824	
72		• Past service and curtailment costs	40	
8		• Administration Expenses	29	
	3,455			2,893
		Financing and Investment Income and Expenditure:		
	2,958	• Net Intereset Expense		3,034
	6,413	**Total Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement**		**5,927**
		Other post employment benefit charged to the Comprehensive Income & Expenditure Statement		
		Remeasurement of the net defiined benefit liablity:		
	(6,913)	Return on Fund assets	(892)	
	0	Actuarial gains and losses arising on changes in demographic assumptions	4,654	
	5,974	Actuarial gains and losses arising on changes in finanical assumptions	2,674	
	0	Other actuarial gains and losses	376	
	3	Experience gain and losses on defined benefit obligation	(17,244)	
	(936)	**Total Remeasurement of Net Defined Benefit Liability**		**(10,432)**
	5,477	**Total post employment benefit charged to the Comprehensive Income and Expenditure Statement**		**(4,505)**
		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:		
(2,296)		• Employer's contributions payable to scheme	(1,921)	
(234)		• Retirement benefits payable to pensioners	(235)	
	(2,530)			**(2,156)**

Assets and Liabilities in Relation to Retirement Benefits

The underlying assets and liabilities for retirement benefits attributable to the authority at 31 March 2014 are as follows:

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

Previous Year 2012/13		Current Year 2013/14
£'000		£'000
137,254	Present value of Funded Obligation	132,185
(71,673)	Fair Value of Assets in Scheme	(73,519)
65,581	**Net Liability**	**58,666**
2,893	Present Value of Unfunded Obligation	3,148
68,474	**Closing Balance at 31 March**	**61,814**

The liabilities show the underlying commitments that authority has in the long-run to pay retirement benefits. The toal liability of £61,814,000 has a substantial impact on the net worth of the authority as recorded in the balance sheet, resulting in an overall balance of £38,380,000. 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 2012/13		Current Year 2013/14
£'000		£'000
128,674	Opening Balance at 1 April	140,147
3,375	Current service cost	2,824
5,833	Interest cost	6,219
869	Contributions by scheme participants	683
	Remeasurement gains and losses	
0	• Arising from changes in demographic assumptions	4,654
5,974	• Arising from changes in financial assumptions	2,674
3	• Experience gain/loss on defined benefit obligation	(17,244)
(4,344)	Benefits paid	(4,430)
(138)	Liabilities extinguished on settlement	0
135	Curtailment costs	40
(234)	Unfunded Pension Payments	(235)
140,147	**Closing balance at 31 March**	**135,332**

Reconciliation of Fair Value of Scheme Assets

Previous Year 2012/13		Current Year 2013/14
£'000		**£'000**
63,147	Opening balance at 1 April	71,673
2,875	Interest on Assets	3,185
	Remeasurement gains and losses	
6,913	• Return on assets less interest	892
0	• Other actuarial gains and losses	(376)
(8)	Administration expenses	(29)
2,530	Contribution by the employers	2,156
869	Contributions by scheme participants	683
(4,578)	Benefits paid	(4,665)
(75)	Payment of bulk transfer value	0
71,673	**Closing balance at 31 March**	**73,519**

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	132,912	135,333	137,800
Projected service cost	2,432	2,490	2,549
Adjustment to long term salalry increase	**+0.1%**	**0.0%**	**-0.1%**
Present value of total obligation	135,679	135,333	134,990
Projected service costs	2,490	2,490	2,490
Adjustment to pension increases and deferred revaluation	**+0.1%**	**0.0%**	**-0.1%**
Present value of total obligation	137,493	135,333	133,214
Projected service costs	2,550	2,490	2,431
Adjustment to mortality age rating assumption	**+1 Year**	**None**	**-1 Year**
Present value of total obligation	130,704	135,333	140,001
Projected service costs	2,407	2,490	2,573

(Brackets represent liabilities on this page)

Projected Pension Expense for the year to 31 March 2015

	Year to 31 March 2015 £'000
Service Cost	2,490
Net Interest on the defined liablity	2,736
Administration expenses	30
Total	**5,256**
Employer Contributions	**2,030**

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 assumptions about mortality rates, salary levels, etc. The County Council Fund liabilities have been assessed by Barnett Waddingham, an independent firm of actuaries. Estimates for the County Council Fund being based on the latest full valuation of the scheme as at 31 March 2013.

The principal assumptions used by the actuary have been:

31 March 2013		31 March 2014
2.6%	Rate of inflation (CPI)	2.8%
4.8%	Rate of general long-term increase in salaries	4.6%
2.6%	Rate of increase to pensions in payment	2.8%
2.6%	Rate of increase to deferred pensions	2.8%
4.5%	Discount rate	4.5%

Assumed life expectations from aged 65 (years) are:

	Males	Females
Current Pensioners	23.6	26.0
Future Pensioners (20 years from now)	25.8	28.3

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 2013	Value of total scheme as at 31 March 2013 £'000		% of total scheme as at 31 March 2014	Value of total scheme as at 31 March 2014 £'000
72	51,604	Equity investments	71	52,198
8	5,734	Government Bonds	6	4,411
11	7,884	Corporate Bonds	11	8,087
8	5,734	Property	10	7,352
1	717	Cash	2	1,470
100	**71,673**		**100**	**73,519**

46. 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 £311,000 that falls on SSDC. A specific working group manages any risks within existing revenue and capital budgets.

In transferring employees to the Somerset Waste Partnership (SWP) South Somerset agreed a guarantee of last resort to the Somerset County Council Pension Fund for those employees transferred to Kier. The actuarial valuation at the time assessed the maximum liability at £748,000. 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 Council has made a provision for Business Rates Appeals based upon its best estimates of the actual liability as at 31st March 2014 in known appeals. It is not possible to quantify appeals that have not yet been lodged with the Valuations Office so there is a risk to the Council that national and local appeals may have a future impact on the accounts.

South West Audit Partnership became a company limited by guarantee on 1st April 2013. SSDC has guaranteed the Somerset Pension fund deficit relating to ex-employees to a value of £149,000. The nursery that was run by South Somerset District Council has now transferred to Mama Bears. The Council has guaranteed £36,000 to the Somerset Pension fund.

South Somerset District Council is a defendant in proceedings brought by a group of Property Search Companies for refunds of fees paid to the Council to access land charges data. In the current litigation the Council has already recently settled a claim of £10,109 plus interest and costs. A second group of Property Search Companies are also seeking to claim refunds although no proceedings have yet been issued. The Council has been informed that the value of those claims at present is £106,362.83 plus interest and costs. The second group of Property Search Companies have also intimated that they may bring a claim against all English and Welsh local authorities for alleged anti-competitive behaviour. It is not clear what the value of any such claim would be as against the Council. It is possible that additional claimants may come forward to submit claims for refunds, but none have been intimated at present. It is envisaged in any event that any & all claims will be resolved without the need for formal litigation.

47. DORCAS HOUSE TRUST

Dorcas House Trust (otherwise known as Portreeves or Corporation Almshouses) is a registered Charity, No 235337, whose trusteeship is vested in South Somerset District 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 2012/13 £'000		**Current Year 2013/14 £'000**
(24)	Total Income for the Year	(9)
(8)	Revaluation of Investments	(1)
0	Proceeds from Sale of Dorcus House	(372)
16	Total Expenditure for the Year	10
(16)	**Deficit/(Surplus) for the Year**	**(372)**

(Brackets represent income)

Dorcas House Trust holds the following reserves:

Previous Year 2012/13 £'000		**Current Year 2013/14 £'000**
1	Endowment Fund	1
65	Capital & Unrestricted Funds	438
66	**Total Reserves**	**439**

The Statement of Accounts for Dorcas House Trust may be obtained by contacting the Assistant Director - Finance and Corporate Services, The Council Offices, Brympton Way, Yeovil, Somerset, BA20 2HT.

Collection Fund Account

INCOME AND EXPENDITURE ACCOUNT for year ended 31 March 2014

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 2012/13		**Year Ended 31 March 2014**		
Collection Fund £'000		**Business Rates £'000**	**Council Tax £'000**	**Collection Fund £'000**
	INCOME			
(80,779)	**Income from Council Tax**	0	(84,134)	(84,134)
(40,548)	**Income Collectable from Business Ratepayers**	(42,677)	0	(42,677)
(121,327)	**TOTAL INCOME**	**(42,677)**	**(84,134)**	**(126,811)**
	EXPENDITURE			
	Precepts and Demands			
40,324	- Central Government	20,801		20,801
62,845	- Somerset County Council	3,744	56,368	60,112
10,279	- Police and Crime Commissioner for Avon & Somerset	0	9,220	9,220
4,522	- Devon & Somerset Fire & Rescue	416	4,137	4,553
13,243	- South Somerset District Council (including Parishes)	16,649	12,081	28,730
	Transitional Protection Payments	19	0	19
	Distribution of previous year's Collection Fund surplus			
114	- Somerset County Council	0	42	42
19	- Police and Crime Commissioner for Avon & Somerset	0	7	7
8	- Devon & Somerset Fire & Rescue	0	3	3
24	- South Somerset District Council	0	9	9
	Charges to Collection Fund			
74	Write offs of uncollectable amounts	116	73	189
341	Increase / (Decrease) in bad debt	297	525	822
0	Increase / (Decrease) in Provision for Appeals	2,376	0	2,376
224	Costs of Collection	223		223
(10,615)	(Increase) / Decrease in Council Tax Benefits	0	107	107
121,402	**TOTAL EXPENDITURE**	**44,641**	**82,572**	**127,213**
75	**(SURPLUS)/DEFICIT FOR YEAR**	1,964	(1,562)	402
(320)	**Balances at Start of Year**	0	(246)	(246)
(245)	**Balances at End of Year**	**1,964**	**(1,808)**	**156**

(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, Avon & Somerset Police Authority, 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 2012/13.

Tax Base						
Previous Year 2012/13					**Current Year 2013/14**	
Effective No of dwellings	Band D Equivalent	Weighting	Tax Band	Property Value (at April 1991)	Effective No of dwellings	Band D Equivalent
10	6	5/9ths	A-	disabled band	10	5
8,042	5,361	6/9ths	A	up to £40,000	8,158	5,438
19,087	14,845	7/9ths	B	between £40,001 & £52,000	19,372	15,067
13,841	12,303	8/9ths	C	between £52,001 & £68,000	14,037	12,477
10,381	10,381	1	D	between £68,001 & £88,000	10,278	10,278
8,144	9,954	11/9ths	E	between £88,001 & £120,000	8,240	10,072
4,212	6,085	13/9ths	F	between £120,001 & £160,000	4,281	6,184
1,641	2,735	15/9ths	G	between £160,001 & £320,000	1,674	2,789
139	278	18/9ths	H	Over £320,000	141	283
65,497	**61,948**				**66,191**	**62,593**
	(773)			Less adjustment for non-collection and banding reductions		(781)
	0			Less adjustment for Council Tax Reduction Scheme		(6,941)
	61,175			Council Tax Base		**54,871**

Details of the precepts are shown below

Previous Year 2012/13 £	Precepting Authorities	Current Year 2013/14 £
62,845,401	Somerset County Council	56,368,525
10,279,219	Police and Crime Commissioner for Avon & Somerset	9,220,166
4,522,080	Devon & Somerset Fire & Rescue Authority	4,136,691
9,197,818	District Council's own requirement	8,271,200
4,031,616	Total of Parish Precepts & Levies	3,809,607

The council tax for Band D, calculated by dividing the precepts by the tax base, is shown below.

Previous Year 2012/13 £	Council Tax levy at Band D	Current Year 2013/14 £
1,027	Somerset County Council	1,027
168	Police and Crime Commissioner for Avon & Somerset	168
74	Devon & Somerset Fire & Rescue South	75
151	Somerset District Council	151
1,420		**1,421**
65	Add Town & Parish Councils (average)	69
1,485	**Average Council Tax Levy at Band D**	**1,490**

2. 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 2012/13	**Precepting Authorities**	**Current Year 2013/14**
£111,309,849	**National Non-Domestic Rates (NNDR)** Rateable value at 31st March	£111,422,947
 45.8p 45.0p	NNDR rate poundage • National Multiplier • Small Business multiplier	 47.1p 46.2p

3. CONTRIBUTION TOWARDS PREVIOUS YEAR'S SURPLUS

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.

Annual Governance Statement

Scope of responsibility

SSDC is responsible for ensuring that:

- its business is conducted in accordance with the law and proper standards;
- public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

SSDC also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, SSDC is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

SSDC has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework "Delivering Good Governance in Local Government". A copy of the authority's code can be obtained on request. This statement explains how SSDC has complied with the code and also meets the requirements of the Accounts and Audit (England) Regulations 2011, regulation 4(3), which requires all relevant bodies to prepare an annual governance statement.

SSDC's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Finance Officer in Local Government as set out in the Application Note to Delivering Good Governance in Local Government: Framework.

The purpose of the governance framework

The governance framework comprises the systems and process, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process that is designed to:

- identify and prioritise the risks to the achievement of SSDC's policies, aims and objectives;
- evaluate the likelihood and potential impact of those risks being realised;
- managing the risks efficiently, effectively and economically.

The governance framework has been in place at SSDC for the year ended 31 March 2014 and up to the date of approval of the statement of accounts.

The governance environment

The key elements of SSDC's governance arrangements are outlined in the Local Code of Corporate Governance. The main areas and the key areas of evidence of delivery are as follows:

Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area

- The Council Plan sets out the priority areas for South Somerset District Council.

- Annual accounts are published on a timely basis to communicate the council's activities and achievements, its financial position and performance

- Guidance has been produced to facilitate partnership working and a Partnership Register published and updated annually.

- All reports to be considered for approval must show a clear outline of purpose so the community can understand each committee report. All reports must have a clear outline of financial implications before consideration by members.

Members and officers working together to achieve a common purpose with clearly defined functions and roles

- The three statutory officers (Head of Paid Service, Monitoring Officer and s151 Officer) regularly meet as a Corporate Governance Group. The Monitoring Officer and s151 Officer report directly to the Head of Paid Service and are members of the senior Management Board.

- Regular weekly meetings between the Leader and Chief Executive in order to maintain a shared understanding of roles and objectives.

- An arrangement with East Devon District Council is in place for sharing a Chief Executive through a Section 113 agreement outlining the detail of function and role.

- Protocols developed and enforced to ensure effective communication between members and officers in their respective roles.

- Regular meetings between the Executive members and senior management.

- There is a clear scheme of delegation for officers and members within the Constitution.

- The s151 Officer leads the promotion and delivery of good financial management through Management Board, Corporate Performance Team, attendance at committees, is the lead office for the Audit Committee, and specialist workshops and training. The s151 Officer has line management responsibility for finance staff.

Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour

- The financial management of the Council is conducted in accordance with the rules set out in Part 4 of the Constitution.

- The Council maintains an Internal Audit Service through the South West Audit Partnership (SWAP) that operates to standards specified by the Chartered Institute of Internal Auditors (CIIA) and the CIPFA statement of the Role of the Head of Internal Audit (2010) but with some delegation within SWAP.

- There is a countywide code of conduct and this will be regularly reviewed by the Standards Committee.

- There is a voluntary Standards Committee in place with an agreed constitution containing its terms of reference.

- Regular communication is made through Staff Awareness Sessions, Insite, and Team Brief.

- A Management Charter has been introduced and signed by all Managers and compliance will be reviewed through Staff Appraisal and Development Reviews.

- A Staff Charter was introduced in 2013/14 and training to all staff is currently in progress.

Taking informed and transparent decisions which are subject to effective scrutiny and managing risk

- The Council has adopted a Constitution that sets out how it operates, how decisions are taken and the procedures to follow.
- The District Executive facilitates decision-making and its Sub Committees, four Area Committees and meetings are open to the public except where personal or confidential matters are disclosed.
- Portfolio Holders can make decisions under delegated authority and these are fully publicised. Senior officers can also take decisions under delegated authority.
- Regulation Committee determines planning applications that are referred from Area Committees.
- The Council publishes a Forward Plan that provides details of key decisions to be made by the Council and its committees.
- Area Committees also hold regular workshops where local issues are identified and discussed;
- The Council has an approved a Risk Management Policy that identifies how risks are managed.
- Responsible officers are required to maintain their part of the Strategic Risk Register. The Strategic Risk Register is available to all Managers and elected Members.
- All Assistant Directors have the following included within their job descriptions, "Lead the service(s) in a full and comprehensive understanding of risk, risk assessment and risk management as it relates to the operational areas relevant to the service(s)."
- Any Internal Audit actions showing the highest risk score of 5 will be outlined annually and monitored within the Annual Governance Statement.

Developing the capacity and capability of members and officers to be effective

- The Council looks to develop skills on a continuing basis to improve performance of officers through the Staff Development and Appraisal Review process including the use of training and development plans.
- Succession planning encourages participation and development for members and officers.
- Through a comprehensive member training and development programme.
- An induction programme is in place for all new staff.
- Clear job descriptions and personal specifications are in place for all roles.
- The s151 Officer and five of the finance team are qualified accountants with several years' experience. The finance function has sufficient resources to perform its role effectively.

Engaging the local people and other stakeholders to ensure robust public accountability

- Area Committees ensure further local accountability and local access.
- Budget consultation has been carried out for specific savings plans and equalities assessments carried out on each proposal.
- A summarised Statement of Accounts is published each year explaining the key financial areas to the public.

Review of effectiveness

SSDC has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the Corporate Governance Group, Management Board and the Corporate Performance Team, who have responsibility for the development and maintenance of the governance environment, the annual report from the Head of Internal Audit (SWAP), and also by comments made by the external auditors and other review agencies and inspectorates.

The process that has been applied to maintaining and reviewing the effectiveness of the governance framework includes:

- The monitoring officer has a duty to monitor and review the operation of the Constitution to ensure its aims and principles are adequate. The Council reviews the constitution annually through its Standards Committee.

- The Council has a Scrutiny Committee that can call in any decision made by an Executive Committee before implementation. This enables them to consider whether or not the decision is appropriate. Pre-decision scrutiny has evolved to aid in the decision making process.

- The Audit Committee reviews the Annual Statement of Accounts, the Review of the Effectiveness of Internal Audit, and the Annual Governance Statement. It monitors the performance of internal audit quarterly and agrees the Internal and External Audit Plans. It reviews specific parts of the Constitution and makes recommendations on any amendments to full Council.

- The Audit Committee has a call in role for any service that receives a “partial” or “no assurance” audit opinion and monitors the action plans are completed through regular reports from the Service Manager and Assistant Director.

- Internal Audit through SWAP is responsible for monitoring the quality and effectiveness of systems of internal control. The Audit Service has a Charter approved by the Audit Committee and there are no restrictions on the scope of their work. A risk model is used to formulate the plan and approved by the Audit Committee. The reporting process for Internal Audit requires a report of each audit to be submitted to the Service Manager with copies to the relevant Assistant Director, Assistant Director – Finance and Corporate Services, Assistant Director - Legal and Corporate Services, and Chief Executive. All audit reports include an ‘opinion’ that provides management with an independent judgement on the adequacy and effectiveness of internal controls. Reports include recommendations for improvement that are detailed in an action plan that is agreed with the service manager.

- Internal Audit (SWAP) is subject to the Public Sector Internal Audit Standards (PSAIS). This includes an external assessment at least every five years. It requires an action plan to implement improvements and assess the efficiency and effectiveness of internal audit. This will be regularly reviewed by the Audit Committee.

- For performance management, a ‘traffic light’ monitoring and reporting system is in place reporting quarterly to the Executive Committee.

- The Council’s Financial Procedure Rules are kept under review and revised periodically – the last review was approved in April 2011.

- Each Manager and Assistant Director is required to review their adherence to the governance framework and demonstrate compliance through reviewing and signing a Statement of Internal Operational Control. Each return is assessed by S151 Officer for compliance and any apparent organisational improvements are included in the Governance Action Plan.

- Audit Committee has been advised on the implications of the result of the review of the effectiveness of the governance framework and a plan to address weaknesses and ensure continuous improvement of the system is in place.

We have been advised on the implications of the results of the review of the effectiveness of the governance framework by the Audit Committee and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined below:

Already addressed from 2012/13:-

- A refresh of the Procurement Procedure Rules to clarify Equalities responsibilities and include Internal Audit recommendations.
- Complete the Fraud and Data Strategy to link all anti-fraud work.
- Retender the cash collection contract by September 2013.
- Review General Account reconciliations as part of implementation of the Cash Receipting System.

Actions for 2013/14

Brought forward from 2012/13 - a refresh of the Risk Management Strategy and reporting risk management regularly to Management Board and Audit Committee (November 2014);

Provide refresher training on Data Protection and data encryption (October 2014).

Significant governance issues

There are no significant governance issues to report for 2013/14.

However, we propose over the coming year to take steps to address the actions outlined in our review to strengthen and enhance our governance arrangements. These actions will be monitored by the Audit Committee during 2014/15.

Signed on behalf of SSDC:

Donna Parham
Assistant Director – Finance and Corporate Services

Mark Williams
Chief Executive

Cllr Ric Pallister
Leader

Glossary of Terms

Local Government, in common with many specialised activities, has developed over the years its own unique set of terms and phrases.

This glossary helps to identify some of those terms and phrases (more often than not abbreviated in common usage to initial letters only) which will be found in this statement.

Accruals
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 facse when meeting it responibilities.

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 summarising 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 South Somerset 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. Revenue Support Grant (RSG) , Housing and Planning Delivery Grant (HPDG) and Area Based Grant (ABG) – RSG makes up the difference between expenditure at the formula spending share and the amount which would be collected in council tax for that level of expenditure and the amount of non domestic rate redistributed. ABG is a general grant allocated directly to local authorities as additional revenue funding to areas. HPDG is to reward local authorities for improved delivery of housing and other planning outcomes as part of their strategic place shaping role and to provide more support to communities and local councils who are actively seeking to deliver new homes.
- Specific service grants – grants 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 Authority'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 SSDC 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 SSDC 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.

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 soft 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.

Government Grants
are made by the Government towards either revenue or capital expenditure to help with the cost of providing services and capital projects. Some government grants have restrictions on how they may be used whilst others are general.

Housing Benefits
is the national system for giving financial assistance to individuals towards certain housing costs. SSDC administers the scheme for South Somerset residents. The Government subsidises 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 realisable value and include roads and footpaths.

Intangible Fixed 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.

Investment Property
is property held exclusively for revenue generation of for the capital gains that the assets is expected to generate.

Liability
must be included in the financial statements when SSDC 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.

Local Authority Business Growth Initiative (LABGI) Scheme Grant
is a grant awarded to the Council by the Government. The purpose of this grant was to provide support towards expenditure lawfully incurred or to be incurred by the Council. There is therefore no restriction on its use.

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 authority, 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 and Fire and Central Government.

NILO
stands for National Investment and Loans Office. It is a Central Government department and includes the PWLB. (Public Works Loans Board)

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 Realisable 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 6 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.

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 SSDC 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 SSDC's discretion.

Residual Value
is the value of an asset at the end of its useful life.

Revaluation Reserve
is a new 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 SSDC to another organisation or person. This counts as capital expenditure but it does not create an asset that belongs to SSDC. 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.

Soft Loans
are loans made by the authority at less than market interest rates for policy reasons rather than for treasury management purposes. At SSDC these comprise car loans, bike loans and loans for learning which are made on an interest-free basis to certain employees. These are held at fair value, which is calculated as the present value of all future cash receipts discounted using the prevailing market rate of interest.

Usable Reserves
are reserves that can be applied to fund expenditure or reduce local taxation.

Contact Details

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Extra copies of this booklet can be made available on request. Call 01935 462462.

Agenda Item 10

AUDIT COMMITTEE - FORWARD PLAN 2014/15

Committee Date	**Responsible Officer**
October 2014 • Annual Audit Letter • Treasury Management Practices • Internal Audit – 1st & 2nd quarter and half year update • Review of exemptions given through Procurement Procedure rules2013/14 • Annual Governance Statement Action Plan	 Donna Parham Karen Gubbins Andrew Ellins Gary Russ Donna Parham
November 2014 • Treasury Management – Second quarter monitoring report • Annual Governance Statement Action Plan • Risk Management Update • Financial Procedure Rules 2013/14	 Karen Gubbins Donna Parham Gary Russ Donna Parham
December 2014 **TBC**	
January 2015 • Annual Fraud Programme	 Tom Chown/Lynda Creek
February 2015 • Treasury Management Strategy and Prudential Indicators for 2014/15 – **Needs to go to Full Council in March** • Annual Governance Statement Action Plan • Treasury Management – Third quarter monitoring report • Internal Audit – third quarter update • Internal Audit Plan – approve 14/15 plan • Internal Audit - Charter • External Audit – Audit Plan • External Audit – Certification of Housing Benefit Subsidy Claim	 Karen Gubbins Donna Parham Karen Gubbins Andrew Ellins Andrew Ellins Andrew Ellins Donna Parham Donna Parham

Pending – Update on Community Infrastructure Levy