

Public Document Pack

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Date: Wednesday, 14 September 2022

To all Members of the Audit Committee

Dear Sir or Madam

Summons to attend the Audit Committee Meeting – Thursday, 22 September 2022 at 10.30 am Kenn Room

You are requested to attend the Meeting of the Audit Committee to be held at 10.30 am on Thursday, 22 September 2022.

The agenda is set out below.

Yours faithfully

Assistant Director Legal & Governance and Monitoring Officer

This document and associated papers may be made available in a different format on request.

Agenda

1. Election of Vice Chairperson for Municipal Year 2022-23 (Agenda item 1)

2. Public Participation (Standing Order 17) (Agenda item 2)

To receive and hear any person who wishes to address the Committee. The Chairperson will select the order of the matters to be heard. Each speaker will be limited to a period of five minutes (up to a maximum of 30 minutes).

Requests to speak must be submitted in writing to the Assistant Director Legal & Governance and Monitoring Officer, or the officer mentioned at the top of this agenda letter, by noon on the working day before the meeting and the request must detail the subject matter of the address.

3. Apologies for absence and notification of substitutes (Agenda item 3)

4. Declaration of Disclosable Pecuniary Interest (Standing Order 37) (Agenda item 4)

A Member must declare any disclosable pecuniary interest where it relates to any matter being considered at the meeting. A declaration of a disclosable pecuniary interest should indicate the interest and the agenda item to which it relates. A Member is not permitted to participate in this agenda item by law and should immediately leave the meeting before the start of any debate.

If the Member leaves the meeting in respect of a declaration, he or she should ensure that the Chairman is aware of this before he or she leaves to enable their exit from the meeting to be recorded in the minutes in accordance with Standing Order 37.

5. Minutes (Agenda item 5) (Pages 5 - 12)

28 April 2022 to approve as a correct record (attached)

6. Matters referred by Council, the Executive, other committees etc (if any) (Agenda item 6)

7. Q1 Risk Management Update 2022-23 (Agenda item 7) (Pages 13 - 32)

Report of Head of Business Insight, Policy & Partnerships (attached)

8. Internal Audit Update September 2022 (Agenda item 8) (Pages 33 - 50)

Report of Head of Audit and Assurance (attached)

9. Auditors Annual Report on North Somerset Council 2020-21 (Agenda item 9) (Pages 51 - 88)

Report of External Auditors/Head of Finance (attached)

10. External Auditor reports 2021-22 (Agenda item 10) (Pages 89 - 128)

- Annual Audit Letter
- Grant Certification Letter
- Audit Plan and Progress Update
- Audit Findings Report
- Annual Letter of Representation

Report of External Auditors (attached)

11. Statement of Accounts 2021-22 and Annual Governance Statement (Agenda item 10) (Pages 129 - 306)

Report of Head of Finance (attached)

12. Audit Committee Annual Report 2021-22 (Agenda item 12) (Pages 307 - 320)

Report of Chairperson/Head of Internal Audit (attached)

13. Treasury Management Out-turn Report 2021-22 (Agenda item 13) (Pages 321 - 344)

Report of Head of Finance (attached)

14. Urgent business permitted by the Local Government Act 1972 (if any)

Any item of business which the Chairman is of the opinion should be considered at the meeting as a matter of urgency by reason of special circumstances (to be specified in the Minutes). For a matter to be considered as an urgent item, the following question must be addressed:

“What harm to the public interest would flow from leaving it until the next meeting?” If harm can be demonstrated, then it is open to the Chairman to rule that it be considered as urgent. Otherwise the matter cannot be considered urgent within the statutory provisions.

Exempt Items

Should the Audit Committee wish to consider a matter as an Exempt Item, the following resolution should be passed -

“(1) That the press, public, and officers not required by the Members, the Chief Executive or the Director, to remain during the exempt session, be excluded from the meeting during consideration of the following item of business on the ground that its consideration will involve the disclosure of exempt information as defined in Section 100I of the Local Government Act 1972.”

Mobile phones and other mobile devices

All persons attending the meeting are requested to ensure that these devices are switched to silent mode. The chairperson may approve an exception to this request in special circumstances.

Filming and recording of meetings

The proceedings of this meeting may be recorded for broadcasting purposes.

Anyone wishing to film part or all of the proceedings may do so unless the press and public are excluded for that part of the meeting or there is good reason not to do so, as directed by the Chairperson. Any filming must be done as unobtrusively as possible from a single fixed position without the use of any additional lighting, focusing only on those actively participating in the meeting and having regard to the wishes of any members of the public present who may not wish to be filmed. As a matter of courtesy, anyone wishing to film proceedings is asked to advise the Chairperson or the Assistant Director Legal & Governance and Monitoring Officer's representative before the start of the meeting so that all those present may be made aware that it is happening.

Members of the public may also use Facebook and Twitter or other forms of social media to report on proceedings at this meeting.

Emergency Evacuation Procedure

On hearing the alarm – (a continuous two tone siren)

Leave the room by the nearest exit door. Ensure that windows are closed.

Last person out to close the door.

Do not stop to collect personal belongings.

Do not use the lifts.

Follow the green and white exit signs and make your way to the assembly point.

Do not re-enter the building until authorised to do so by the Fire Authority.

Go to Assembly Point C – Outside the offices formerly occupied by Stephen & Co

Minutes

of the Meeting of

The Audit Committee

Thursday, 28 April 2022

Kenn Room

Meeting Commenced: 10.30 am

Meeting Concluded: 12.10 pm

Councillors:

John Cato (Chairperson)

Patrick Keating
Marcia Pepperall
Richard Tucker

Apologies: Councillors Sandra Hearne (Vice-Chairperson) .

Also in attendance: Barrie Morris and David Johnson (Grant Thornton)

Officers in attendance: Amy Webb (Director of Corporate Services), Melanie Watts (Head of Finance), Nicholas Brain (Assistant Director Legal & Governance and Monitoring Officer), Hazel Brinton (Committee Services Manager), Michele Chesterman, (Committee Services Senior Officer), Peter Cann (Head of Audit and Assurance) and Emma Diakou (Head of Business Insight, Policy and Partnerships).

AUD 25 Declaration of Disclosable Pecuniary Interest (Standing Order 37) (Agenda item 3)

None

AUD 26 Minutes 27 January 2022 (Agenda item 4)

Resolved: that the minutes of the meeting be **approved** as a correct record.

*****Change to Agenda Order*****

AUD 27 Urgent business permitted by the Local Government Act 1972 (if any) (Agenda Item 11) - External Audit Update

The Chairperson agreed a change to agenda order, to consider Agenda item 11 next due to its urgent nature.

Regulations required the committee to consider both the North Somerset Council Audit Plan (report from the council's External Auditors) and Informing the Audit Risk Assessment for North Somerset Council (report from the council's External

Auditors) ahead of the audit plan commencing. Audit work would be prevented from being completed within statutory deadlines if not considered at this meeting and the publication of audited accounts was within the public interest for transparency and adequacy of public record.

A representative from Grant Thornton presented the report noting that this was the first year of compiling the group accounts. The report provided an overview of the planned scope and the timing of the statutory audit of North Somerset Council for those charged with governance. Reference was made to specific procedures followed and the requirement to carry out specific work around material transactions and to consider the risk of fraud in expenditure.

Members were made aware of significant risks which included management override of control; income from fees, charges and other service income; valuation of land and buildings (an area of increased focus); valuation of investment properties and valuation of net pension fund liability. Significant findings on these areas would be communicated as well as any other significant matters arising from the audit in the Audit Findings (ISA 260) Report.

The representative highlighted the planning materiality levels which were £7.75m for the group and £7.55m for the council which equated to 2% of the prior gross expenditure for the year. In terms of Value for Money arrangements the risk assessment regarding the council's arrangements to secure value for money identified that financial sustainability, given the current challenging financial environment represented a risk of significant weakness.

In presenting the report the representative drew Members' attention to page 20 of the report which referred to audit fees. There had been significant fee variations in recent years and discussions were taking place with the PSAA in order to agree these. Once agreed they would be discussed with the council. Members were informed that the remainder of the report contained the outcomes of recent quality reviews and that Grant Thornton was pleased with the progress being made on those reviews. In terms of progress against prior year recommendations most were in progress and in follow up with audit.

Members queried proposed fees and visibility on percentage growth. The representative explained that it was higher than the previous year as there were additional requirements regarding group accounts and infrastructure assets and new reporting standards. Members raised queries in relation to major projects such as Metrowest and Banwell Bypass and whether they were covered sufficiently in terms of future risk. Members also asked for clarification around the long-term financial concerns around property portfolios, investments and pension fund, whether the timetable was achievable and the nature of any help that members could give the external auditors in their work.

Resolved: that the report be **noted**.

Change to Agenda Order

AUD 28 Q3 Risk Management Update (Agenda item 7)

The Chairperson agreed to a change in agenda order to consider Agenda item 7 next.

The Head of Business Insight, Policy and Partnerships presented the report providing members with an update on the Q3 Strategic Risk Register.

Members were informed that the North Somerset Council Business Planning Framework was designed to monitor progress and risks aligned to the council's Corporate Plan priorities and against the vision for an *open*, fairer, greener North Somerset. This was carried out on an annual basis by developing, implementing and monitoring Annual Directorate Statements (ADS). These were the business plans for each council directorate and gave the key strategic commitments and key risks for the year ahead.

Members were then directed to Table 1.1 (page 4) of the report which showed the current risks from the Strategic Risk Register with scoring. It was noted that there had not been a great deal of change since Q2. Members were also made aware of a new dashboard that members of the public could access. The only new risks were around the supply chain and in respect of specific risks in terms of SEND Placements the number of children had gone down.

Members queried the red risks in the table and how they compared with Q2 and when Q4 would be available. The officer responded that in terms of the Strategic Risk Register there was a risk in achieving the net zero position. It was not possible to control all events and some would never be green. This was the case for cyber-attacks but much could be mitigated. Members were informed that Q4 ended at the beginning of April and the process generally took six weeks to go through leadership, CLT, Executive and was then published.

In discussing the report Members asked in terms of direction of travel it would be useful for the red risks to have commentary attached and if a link could be inserted for future reports.

It was stressed that at this stage the document was a high level strategic one containing cross cutting issues that affected the whole council and as such it would not be possible to delve down into the detail. In other cases it might be possible to insert generic information but anonymised. There was caution raised around language in order not to expose the council to commercial risk.

Members queried whether they had access to information at a sufficient level and whether there was an action plan below to delve deeper. Members were informed that the Directorate Risk Registers contained that information. A risk Management Strategy was currently in place but was due to be refreshed. Members discussed

what information they would like to see which included more detail and for this to be delivered in the form of an informal meeting.

Resolved: that the report be **noted**

**AUD
29** **Constitution Review 2022 (Agenda item 6)**

It was noted that a series of workshops involving Audit Committee members, the Chairperson of the Partnerships, Corporate organisation and Overview/Management Policy & Scrutiny Panel and the Monitoring Officer had taken place to review parts of the Constitution and consider proposals for any changes for recommendation to Council. Financial Regulations and Contract Standing Orders had not been within scope of this review given changes being made to UK procurement rules would impact on those elements of the Constitution. It was intended to carry out a review of those elements once the procurement rules changes have been concluded which it is hoped will be later this year. A marked-up version of the Constitution with proposed changes had then been provided to all councillors inviting comment. Officers in Democratic Services and Community Safety had responded with further consequential changes and asking that the Council's Prevent duty was recognised within the terms of reference of the Partnerships, Corporate organisation and Overview/Management Policy & Scrutiny Panel given a requirement for it to be formally acknowledged with Council Constitutions. Councillor Petty had also responded asking that the Constitution be updated with gender neutral text (e.g. chairman being replaced by chairperson).

It was further noted that an index / glossary would be incorporated into the updated Constitution along with diagrams / flowcharts as an aid to making the document easier to read and use.

Resolved:

(1) that the Audit Committee confirm the changes proposed from the workshop sessions as shown in the mark-up attached and recommend to Council that those changes be adopted by Council and the Monitoring Officer be asked to update the Constitution and in consultation with the Chairpersons of Audit Committee and Partnerships, Corporate organisation and Overview/Management Policy & Scrutiny Panel make the further changes required to address the points raised by officers and Cllr Petty.

**AUD
30** **Audit and Assurance Annual Report 2021-22 (Agenda item 8)**

The representative of the Head of Audit West presented the report on the closing Internal Audit Annual Report to the Committee for the financial year 2021-22. Also included was a summary of audit performance and key issues, as well as the formal opinion on the internal control framework.

It was highlighted that all but two of the audits completed had an overall audit opinion of satisfactory to excellent (between 'Level 3' and 'Level 5').

There were not any significant control issues identified within internal audit's consultancy, advice, and guidance work. There were two audit reports issued

where it was considered that the overall systems of internal control were weak ('Level 2'). These were in respect of a primary school and ICT – Malware/ Ransomware.

Members were informed that there had been four main audit investigations in the 2021-22 financial year as well as significant involvement in a fact-finding review. Two investigations were ongoing during the year, both of which related to suspected Covid-19 grant payment frauds. NATIS had been approached for an update on their own investigation(s) and members would be informed when there was further information to report.

Members were made aware of the details of the third investigation which related to an allegation that an officer of one of the council's partner organisations had been overseen looking at inappropriate material. Internal Audit were asked to investigate this allegation as a matter of urgency, and, upon review, it was confirmed that these allegations were true. The employee concerned subsequently had their employment terminated with the partner organisation. In the case of the fourth investigation an email was received from a whistle blower via the Fraud mailbox where an external source alleged that a council employee had not declared their criminal record. This employee was found to work for a partner organisation. The employee's employment was terminated with that organisation.

Members noted that as well as the investigations the Internal Audit service have assisted in an independent review of the issues surrounding the roofing works commissioned at a North Somerset school during the summer of 2021. There was found to be a lack of ownership and joined-up thinking. At the conclusion of the work, several presentation/ feedback sessions were held with the Chief Executive/ One West, followed by similar sessions with council Directors and Members, and a session with the school.

Members were informed that in terms of completion of the Internal Audit Plan there were forty-six pieces of audit work within the plan. Forty-two audits had been completed or were at reporting stage. One audit (Business Rates) was approximately 60% complete and would be carried forward; two audits had been requested to be postponed into 22/23 (Green Waste/Sea Fronts) and there was one planned piece of work which had been superceded by s151 Officer/Audit Committee Work (Capital Projects)

Members were directed to Section 5 of the report – Conclusion – Opinion on Internal Control Framework. During the period it was noted that opinions had been tempered by remote working. This continued to be the case through most of 2021/22. Overall, it was considered that the council's internal control framework and systems to manage risk are reasonable. Members were thanked for their work, comments and input and that their challenge was appreciated.

In discussing the report members sought clarification in relation to the following matters: green waste and operational pressures; council response rates of members of the public phoning 888888 and the difference between calls answered and how quickly (members to be provided with statistics on response rates); the risk involved for the council with ICT malware/ ransomware; remote working and how the approach to audit would be amended to suit that way of working (more risk based and probably a requirement for officers to visit the office on a risk

basis).

Resolved: that the report be **noted**

AUD 31 Audit and Assurance Plan 2022-23 (Agenda item 9)

The Head of Audit West presented the Audit and Assurance Plan 2022-23 which formed the principal work of the Internal Audit Service for the new financial year.

It was highlighted that Appendix A outlined the plan and how it was formulated and Appendix B contained the Audit Charter for the Internal Audit Service. It was noted that there had been no major changes to the Charter since the previous year.

Consultations on the Audit and Assurance Plan had taken place during December 2021 – March 2022. It was hoped that members found the plan reflected the discussions which had taken place. The plan had been completed during the Covid 19 Omnicron Variant, the Ukraine conflict and the cost of living crisis. It was proposed to include a formal review of the plan at the six-month stage.

Members were re-assured by a regular review of priorities and thanked the Internal Audit team for the clarity of the report.

Resolved: that the Audit and Assurance Plan 2022-23 be **approved**.

AUD 32 Counter Fraud Report 2022 (Agenda item 10)

The Head of Audit West presented the report which outlined the work carried out to review and update the Anti-Fraud & Corruption Strategy and related policies which were being presented for consultation. Members were also provided with an overview on the National Fraud Initiative (NFI) and information related to investigations carried out by the Internal Audit function.

Members were made aware of The CIPFA Fraud and Corruption Tracker (CFaCT) survey which tracked the level of fraud and corruption that local authorities had detected, the number of investigations undertaken and the types of fraud encountered. The latest edition of the annual CIPFA Tracker Report (2020) detailed the main themes for national fraud indicators within Local Government (accessed via the CIPFA website)

Known fraud risk areas in Local Authorities were highlighted which included Council Tax Fraud, Disabled Parking Concessions (Blue Badge), Business Rates and Housing Fraud. Members were informed that information regarding known and emerging fraud risks was obtained from a number of organisations and professional bodies, one of which was the National Anti-Fraud Network (NAFN) of which North Somerset Council was a member.

A specific fraud risk, referred to, that had emerged was the cost-of-living crisis. This would be actively considered throughout the year during planning and subsequent work, including the use of data analytics to help detect fraud and the use of workshops.

The Internal Audit function co-ordinated the National Fraud Initiative (NFI) on behalf of the council's Section 151 Officer. Members were informed of the results of 2021/22 National Fraud Initiative Exercise. An invitation has been extended to members of the Audit Committee to attend a workshop hosted by the Audit Service to discuss the NFI exercise and these specific findings in greater detail

Members were informed of the detail of Internal Audit Targeted Work and Investigations [Internal Audit Planning and Reviews and Covid-19 Grant Payments, Data Analytics, Investigations, Fraud Reporting (34 fraud referrals – an increase of 54% on the previous year, mainly due to a redesign of the fraud referral forms) and raising staff awareness (increased articles in the knowledge)].

Section 124 of the report contained details of the Strategy and Policy Updates. The Council's Anti-Fraud & Corruption Strategy is the "umbrella strategy" that brought together all fraud related policies. Policies linked to the strategy have also been reviewed and the following three key policy documents have been updated: Whistle Blowing Policy, Anti-Money Laundering Policy and Guidance and Anti-Bribery & Corruption Policy

In discussing the report members asked for clarification on the following: the risks in relation to the cost of living crisis and whether a separate session would be useful; council tax single person discount (section 6.5) and continuity of tracing and tracking fraudulent claims and the ratio of online to face to face staff awareness training.

Resolved: that the report be **noted**.

Chairman

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North Somerset Council

Report to the Audit Committee

Date of Meeting: 19 September 2022

Subject of Report: Q1 Risk Management update 2022/23

Town or Parish: ALL

Officer/Member Presenting: Emma Diakou, Head of Business Insight, Policy and Partnerships

Key Decision: NO

Reason: Information item

Recommendations

That the Audit Committee note the Q1 updates to the 2022/23 strategic risk register and 2022/23 directorate risk registers.

1. Summary of Report

Our Business Planning and Performance Management Framework is designed to monitor progress against our Corporate Plan priorities and against our vision for an **open, fairer, greener** North Somerset. We do this on an annual basis by developing and implementing Annual Directorate Statements. These are the business plans for the five council directorates (Adults, Children's Services, Corporate Services, Place, and Public Health and Regulatory Services) and give the key strategic commitments for the year ahead. Progress against these commitments is monitored by key projects and their milestones, and by a number of Key Corporate Performance Indicators (KCPIs). Alongside these commitments, directorate risk registers are developed, these include any risks which might challenge achievement of our priorities. These risk registers are reviewed to develop an over-arching strategic risk register, where high level risks are escalated and held. Progress on commitments, and against risk registers are reviewed quarterly by Directorate Leadership Team, by Corporate Leadership Team, by Executive Members, by Scrutiny Panels, and the Audit Committee. This is our Integrated Performance Management Framework (IPMF).

This paper gives an update on the directorate risk registers and against the strategic risk register as of end Q1.

2. Policy

The Corporate Plan is the council's overarching strategic document. It is the only plan which covers the full range of the council's responsibilities and is an important tool to help focus our effort and resources on the right things. By prioritising a clear set of commitments, the Corporate Plan also helps residents to hold the council to account for its performance and challenge it to improve.

The risk registers detail the risks faced by North Somerset Council in relation to achieving our aims and priorities as defined in the Corporate Plan. The risk registers also note mitigating actions being taken where possible to control those risks.

3. Details

The following risk scoring matrix is used to analyse each risk:

Fig 1.1: risk scoring matrix

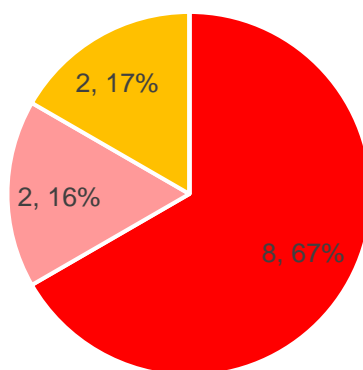
		← Likelihood →				
		Rare	Unlikely	Possible	Likely	Almost certain
Impact	Critical	LOW/MED	MEDIUM	HIGH	HIGH	HIGH
	High	LOW	MEDIUM	MED/HIGH	HIGH	HIGH
	Medium	LOW	LOW/MED	MEDIUM	MED/HIGH	HIGH
	Low	LOW	LOW/MED	LOW/MED	MEDIUM	MEDIUM
	Negligible	LOW	LOW	LOW	LOW/MED	LOW/MED

Strategic risk register:

There are 12 risks in the strategic risk register. After mitigating actions have been applied, 8 risks remain HIGH:

Fig 1.2 strategic risk register: residual risk score

■ High ■ MedHigh ■ Med ■ LowMed ■ Low



High scoring risks are:

- Risk that we are unable to deliver the priorities of the council by not planning to meet the Medium Term Financial challenge and delivering a balanced budget.
- Risk that we are unable to reduce or mitigate inflationary pressures (such as energy prices), resulting in impacts on our services.
- Risks of ineffective recruitment across the organisation leading to capacity issues in key areas.
- Risk that we do not deliver sustainable change in children's services at the right pace of the improvement journey.
- Risk that we do not manage the demand for children's social care and special educational needs and disabilities (SEND) placements within available resources.
- Risk that despite protecting the council's systems and essential data from cyber-attacks, malicious attempts to damage critical services within the council could be disruptive.
- Risks aligned to any delay to the Local Plan process exposing council to risk of speculative development and unplanned growth through appeal.
- Risks to achieving a net zero position by 2030 given current resources and sphere of influence.

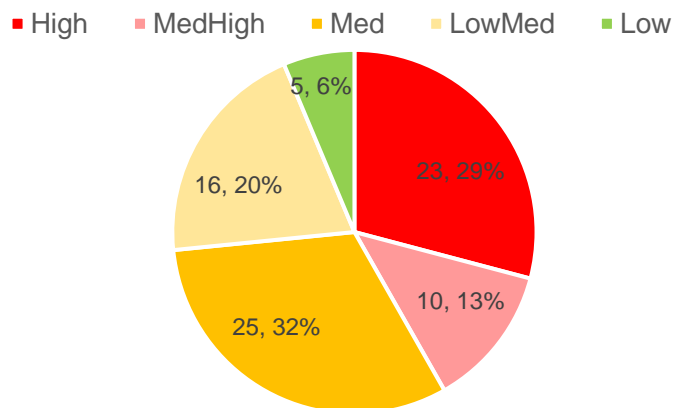
For the full list of strategic risks including their inherent and residual risk rating as per the matrix in fig 1.1, please see appendix 1.

Directorate risk registers:

There are 79 reportable risks across the five council directorates (Adults, Children's Services, Corporate Services, Place, and Public Health and Regulatory Services). Note, some of these risks are similar to the risks which have been escalated to the strategic risk register and are therefore held at both directorate and strategic level.

After mitigating actions have been applied, 23 risks remain HIGH:

Fig 1.3 directorate risk registers: residual risk score



High scoring risks are:

- Risk that we do not manage budgets effectively in-year and ensure a balanced budget (Adults directorate).
- Risk that we will be unable to recruit and/or retain and/or train sufficient social workers and occupational therapists to meet our statutory duties (Adults directorate).
- Risk that we will not be able to support enough families to reduce the likelihood of eviction/linked to private sector rent rises (Adults directorate).
- Risk that we do not manage budgets effectively in-year and ensure a balanced budget (Children's directorate).
- Risk that we do not deliver savings against the Medium Term Financial Plan (Children's directorate).
- Risk that we do not deliver sustainable change in children's services at the right pace of the improvement journey (Children's directorate).
- Risk of managing demand and delivering sufficient places for SEND (Children's directorate).
- Risk that we are unable to deliver the priorities of the council by not planning to meet the Medium Term Financial Challenge and delivering a balanced budget (Corporate Services directorate).
- Risk of the financial envelope of the pay award and the impact on the budget (Corporate Services directorate).
- Risk of cyber-attacks and malicious attempts to damage critical services within the council (Corporate Services directorate).
- Risks of ineffective recruitment across the organisation leading to capacity issues in key areas (Corporate Services directorate).
- Financial and political risk associated with the simplification and changes to the Council Tax Support policy for 2023/24 (Corporate Services directorate).
- Risks of significant financial pressures across the directorate due to increases in inflation and energy resulting in contract risks and service delivery risks costs (Place directorate).

- Failure to recruit and/or retain skilled roles (planners, building control, transport and highways, technical specialists) (Place directorate).
- Ash dieback risk - health and safety risk from falling trees, financial risk as cost of removal is high (Place directorate).
- Risk of having no waste depot to operate from beyond 2027 (Place directorate).
- Risks related to all council owned trees (tree risk management) (Place directorate).
- Risk to development of transport and highways scheme pipeline and delivery of projects (Place directorate).
- Delay to Local Plan process exposes council to risk of speculative development and unplanned growth through appeal (Place directorate).
- Risk that the lack of five-year supply could lead to the council being exposed to appeals for residential development in sub-optimal locations and additional costs of appeal (Place directorate).
- Risks to funding for MetroWest inc. capital elements (Place directorate).
- Flood risk - climate change and rising sea levels present a significant risk to people, property and the economy on low lying land across North Somerset (Place directorate).
- Risks to achieving a net zero position by 2030 given current resources and sphere of influence (Place directorate).

For the full list of strategic risks including their inherent and residual risk rating as per the matrix in fig 1.1, please see appendix 2.

Commitments

Annual Directorate Statement commitments are rated at the end of each quarter using the following framework:

Fig 1.1: commitment RAG rating framework

GREEN	Successful delivery of this commitment is highly likely. There are no major outstanding issues that at this stage appear to threaten delivery
GREEN/AMBER	Successful delivery of this commitment is likely but there are some minor outstanding issues that need to be resolved to ensure delivery.
AMBER	Successful delivery of this commitment appears feasible, but issues already exist requiring management attention. These appear resolvable at this stage and if addressed promptly should not present further problems.
AMBER/RED	Successful delivery of this commitment may be unachievable. Issues already exist requiring immediate management attention to ensure delivery.
RED	Successful delivery of this commitment appears to be unachievable. There are major issues which at this stage do not appear to be manageable or resolvable.

All Annual Directorate Statement commitments that were AMBER/RED or RED were reviewed as at end of Q1 to identify if a risk was aligned to them within the strategic and directorate risk registers and if not, to consider whether they should be. This ensures a clear link between the business planning framework and the risk management framework.

As of end Q1, 13 commitments were rated AMBER/RED. No commitments were RED. Of these AMBER/RED commitments:

- 9 commitments were reflected in the strategic and/or directorate risk registers.
- 4 commitments were not sufficiently reflected and have been recommended for inclusion in either directorate risk registers or the strategic risk register as of Q2:

Commitment	RAG rating (Q1)	Outcome
We will implement the Digital Strategy and deliver on any in-year actions we have identified in the action plan.	AMBER/RED	A risk to the digital / information management programme should be included as a specific risk in the CSD risk register.
We will implement the Information Management Strategy and deliver on any in-year actions we have identified in the action plan.	AMBER/RED	
Ensure timely resolution of directorate complaints in Children's directorate.	AMBER/RED	Commitment should form part of a strategic risk around customer services offer related to the Customer Services Strategy.
Provide a reliable and effective planning service including improvements to pre-application measures and speed of decisions.	AMBER/RED	A planning service risk should be included as a specific risk in the Place risk register.

4. Consultation

As part of the Business Planning Framework all tier three managers (assistant directors and heads of service) and above contribute to their Annual Directorate Statement and their risk register. These are then agreed by Directorate Leadership teams, Corporate Leadership team and with the relevant Executive members. Annual Directorate Statements are published for all staff to view on the intranet.

The views of residents, staff and other stakeholders all helped to shape the development of the Corporate Plan on which the Annual Directorate Statements are based.

5. Financial Implications

All Annual Directorate Statements for 2022/23 include the following council-wide commitment: *Ensure effective financial management across the directorates including a balanced budget at year end and delivery of Medium Term Financial Plan savings.* Risks are then aligned to that commitment as needed and reported quarterly.

Costs

N/A

Funding

N/A

6. Legal Powers and Implications

N/A

7. Climate Change and Environmental Implications

The business planning framework contributes to the council's vision to be open, fair and green. As part of this, all Annual Directorate Statements for 2022/23 include the following commitment for all directorates: *Deliver the directorate climate emergency action plan and deliver to timescales*. A commitment is also included to refresh the over-arching Climate Emergency Strategy and action plan. Progress against this is monitored quarterly as part of this Integrated Performance Management Framework.

8. Risk Management

This report considers risk management across the organisation aligned to the Corporate Plan, Annual Directorate Statements and Integrated Performance Management framework.

9. Equality Implications

The Integrated Performance Management Framework includes Key Projects and Key Corporate Performance Indicators. A number of these are equality objectives and reported to the Equalities Group.

Equality implications are also considered throughout the risk management process.

10. Corporate Implications

It is a requirement as part of the Business Planning Framework for all directorates to hold a risk register that is aligned to their business plan and considered at least quarterly by their Directorate Leadership Team.

A strategic risk register is held by Corporate Leadership Team and reviewed at least quarterly by Corporate Leadership Team, by Executive members, by Scrutiny Panels and by Audit Committee.

11. Options Considered

Risk registers are a requirement of the Business Planning Framework.

Author:

Emma Diakou
Head of Business Insight, Policy and Partnerships
Corporate Services Directorate
North Somerset Council
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Background Papers:

- North Somerset Corporate Plan: [Organisational priorities | North Somerset Council \(n-somerset.gov.uk\)](#)
- Adults directorate Annual Directorate Statement 2022/23
- Children's directorate Annual Directorate Statement 2022/23
- Corporate Services directorate Annual Directorate Statement 2022/23
- Place directorate Annual Directorate Statement 2022/23
- Public Health and Regulatory Services Annual Directorate Statement 2022/23

Appendix 1:

Strategic risk register (as of end Q1 2022/23):

Risk	Inherent score	Mitigating actions	Residual score
Risk that we are unable to deliver the priorities of the council by not planning to meet the Medium Term Financial Challenge and delivering a balanced budget.	HIGH	Monthly oversight of detailed workplans by Corporate Leadership Team and development of financial strategy required to close the budget gap for future years.	HIGH
Risk that we are unable to reduce or mitigate inflationary pressures (such as energy prices), resulting in impacts on our services.	HIGH	It should be noted that whilst mitigations are in place and progress is being made to close the budget gap, other issues and pressures continue to materialise which means that the council must update its plans.	HIGH
Risks of ineffective recruitment across the organisation leading to capacity issues in key areas.	HIGH	Recruitment is challenging across all sectors. Mitigations being put in place to strengthen our recruitment offer centrally.	HIGH
Risk that we do not deliver sustainable change in Children's Services at the right pace of the improvement journey.	HIGH	Our strategic plan sets out the improvement actions and action plan for the year ahead. Six clear improvement areas are identified, and work continues against these to take all actions forward with leadership from the Assistant Director supported by Heads of Service. Focused meetings are scheduled where progress is monitored, barriers to success identified and working groups with leads set to drive the goals and progress.	HIGH
Risk that we do not manage the demand for children's social care and SEND placements within available resources.	HIGH	Working with Department for Education on 'Safety Valve' project, and through this, have developed a proposal to reduce expenditure over coming years until we have a balanced book. New post created for Education Commissioning to create a dedicated resource to manage SEND Commissioning.	HIGH
Risk that despite protecting the council's systems and essential data from cyber-attacks, malicious attempts to damage critical services within the council could be disruptive.	HIGH	Ongoing area of risk which has increased given the Ukraine situation.	HIGH
Risks aligned to any delay to the Local Plan process exposing council to risk of speculative development and unplanned growth through appeal.	HIGH	The council continues to progress the preparation of the local plan with the intention to submit to the Secretary of State for Examination during Q4. A new local plan will reset the council's five year housing land supply.	HIGH

Risk	Inherent score	Mitigating actions	Residual score
Risks to achieving a net zero position by 2030 given current resources and sphere of influence.	HIGH	There is a broad programme of activity across workstreams of our property, retrofitting, communications, transport decarbonisation and renewable energy. These activities will help to reduce the Scope 1 and 2 emissions of the organisation, but Scope 3 emissions will continue to be challenging. Emissions for North Somerset as an area are reducing, but significant transport decarbonisation is required. Making the step change of progress required will require massive levels of investment (including public funding) and mass behavioural change even to meet the government's stated aim of zero carbon by 2050.	HIGH
Risk that we are unable to deliver capital projects within the approved resource envelope either due to lack of governance or unmanageable cost increases.	HIGH	Monthly oversight of detailed financial analysis and forecasting by Corporate Leadership Team, along with strategic planning measures and decision making.	MEDHIGH
Risk that we do not manage the increased demands on social care or market demands within available financial or staffing resources for adult social care.	HIGH	Recruitment to the hospital discharge assessment team and Single Point of Access has taken place and due to recruitment difficulties, we have recruited increased numbers of unqualified staff. Financial support for domiciliary care providers agreed to mitigate the increase in fuel charges being experienced by care staff and funds set aside to provide some financial mitigation to the residential and nursing sector.	MEDHIGH
Risks to our overall organisational operational effectiveness due to the impacts of COVID-19.	HIGH	Following government guidance. No evidence of significant staff absence related to covid-19 despite high case rates.	MED
Risks aligned to the deteriorating condition of some of our assets	HIGH	New systems and process are being implemented and a revised structure for property resources developed. Funding has been identified to develop investment plans for key priority assets within leisure, libraries, and depots.	MED

Appendix 2:

Directorate risk registers (as of end Q1 2022/23). Please note these are sorted in order of directorate (Adults, Children's Services, Corporate Services, Place, and Public Health and Regulatory Services) and then by residual risk score.

Adults directorate:

Risk theme	Risk	Lead directorate	Inherent score	Q1 mitigating actions	Residual score
Finance and resources	Risk that we do not manage budgets effectively in-year and ensure a balanced budget.	Adults	HIGH	Resource panel in place where all requests for care and support must be agreed by the Assistant Director or Head of Service. Monthly Directorate Team meetings focused on financial management taking place and weekly meetings to ensure robust oversight of the budget.	HIGH
Finance and resources	Risk that we will be unable to recruit and/or retain and train sufficient social workers and occupational therapists to meet our statutory duties.	Adults	HIGH	Centralised recruitment process being developed. Apprenticeship programme expanded. Recruitment and retention action plan developed. Challenges in implementing elements of action plan due to wider pressures.	HIGH
Operations	Risk that we will not be able to support enough families to reduce the likelihood of eviction/lined to private sector rent rises.	Adults	HIGH	Assessing structure of the team to focus more resource on upstream prevention measures. However, there are additional factors outside our control including the cost of living crisis and increasing rents.	HIGH
Safeguarding	Risk that we do not fulfil our statutory duties to safeguard adults as part of transition planning.	Adults	MEDHIGH	A request has been made to the North Somerset Safeguarding Adult's Board to launch the MARAC with key partner sign-up. This would provide a framework and multi-agency process to respond to the needs of the 17-25 cohort.	MEDHIGH
Finance and resources	Risk that we do not manage the market demands and demographic changes on the cost of adult's social care within available resources.	Adults	HIGH	Transformation themes progressed, Market Sustainability Plan developed, and commissioning strategies refreshed.	MED

Risk theme	Risk	Lead directorate	Inherent score	Q1 mitigating actions	Residual score
Finance and resources	Risk that we are unable to meet the increased costs of adults with complex needs in a sustainable way whilst safeguarding the most vulnerable.	Adults	HIGH	Fair Cost of Care exercise and Market Sustainability Plan to be completed for Autumn.	MED
Finance and resources	Risk around resources to address the increasing demand in complex transitional cases (also in children's directorate).	Adults	HIGH	Transitions Panel has recently been created to initially meet on a monthly basis to discuss more complex transitional cases and to begin earlier future planning of individual needs.	MED
Finance and resources	Risk of care providers leaving the market due to cost of living and rising inflation.	Adults	HIGH	Inflationary provision review for care sector, Fair Cost of Care exercise.	MED
Partnership working	Risk from failure of local health partners.	Adults	HIGH	Work in partnership via system and place setting agendas, e.g., DTA business case, Better Care Fund. Joint work on workforce developments.	MED
Finance and resources	Risk that we will be unable to recruit, retain and train sufficient approved mental health professionals to meet the statutory requirements of the Mental Health Act.	Adults	MED	Plan for training future Approved Mental Health Professionals in place, business contingency planning, use of casual rota, transfer of greater resources to central hub, expansion of training offer outside of mental health services.	MED
Operational	Risk that we do not implement and deliver the transformational projects required to meet the directorate challenges.	Adults	MED	Transformation Manager being recruited to and successful recruitment to Care Reform posts.	MED
Partnership working	Risk that we don't have the financial resources and capacity to deliver care reforms.	Adults	MED	Risk has been added to the strategic risk register (Q2). Cost of Care exercise underway with residential, nursing, and domiciliary care providers. Recruitment to cost of care implementation manager successful.	MED
Safeguarding	Risk that we do not fulfil our statutory duties to safeguard adults.	Adults	MEDHIGH	Creation of Assistant Social Care Worker (ASCW) posts in the central safeguarding team. ASCW posts, once recruited, will provide a resource to undertake initial screening of concerns at an early stage and inform risk assessment for prioritisation of allocation.	LOWMED

Risk theme	Risk	Lead directorate	Inherent score	Q1 mitigating actions	Residual score
Partnership working	Risk that we are not able to deliver services effectively through a new Empowered Communities model.	Adults	MED	Active engagement, identifying shared aims and benefits for residents and communities and developing support to align to local need. Exploring options for external funding to overcome local funding constraints for new developments.	LOWMED

Children's directorate:

Risk theme	Risk	Lead directorate	Inherent score	Q1 mitigating actions	Residual score
Finance and resources	Risk that we do not manage budgets effectively in-year and ensure a balanced budget.	Children's	HIGH	The council is currently facing significant financial pressures linked to an increased number of placements and delivery of statutory functions. All other areas of the budget in the directorate are being reviewed.	HIGH
Finance and resources	Risk that we do not deliver savings against the Medium Term Financial Plan.	Children's	HIGH	The council is currently facing significant financial pressures linked to an increased number of placements and delivery of statutory functions. All other areas of the budget in the directorate are being reviewed.	HIGH
Transformation	Risk that we do not deliver sustainable change in Children's Services at the right pace of the improvement journey.	Children's	HIGH	Our strategic plan sets out the improvement actions and action plan for the year ahead. Six clear improvement areas are identified, and work continues against these to take all actions forward with leadership from the Assistant Director supported by Heads of Service.	HIGH
Operational	Risk of managing demand and delivering sufficient places for SEND.	Children's	HIGH	Work ongoing around the Safety Valve Programme. Appointment of Education Commissioner.	HIGH
Finance and resources	Risk of managing demand for children's social care placements.	Children's	HIGH	Continuous recruitment campaign for more foster carers. Fourth mockingbird phase due to go live in October. Regular review of residential placements to ensure move on plans are in place where required.	MED

Risk theme	Risk	Lead directorate	Inherent score	Q1 mitigating actions	Residual score
Operational	Risk around resources to address the increasing demand in complex transitional cases (also in adults directorate).	Children's	HIGH	Transitions Panel has recently been created to initially meet on a monthly basis to discuss more complex transitional cases and to begin earlier future planning of individual needs.	MED
Finance and resources	Risk that we do not recruit and retain sufficient staff across the directorate.	Children's	HIGH	Refreshed workforce development strategy in place. Microsite in development. Proactive recruitment activity in place.	MED

Corporate Services directorate:

Risk theme	Risk	Lead directorate	Inherent score	Q1 mitigating actions	Residual score
Finance and resources	Risk that we are unable to deliver the priorities of the council by not planning to meet the Medium Term Financial Challenge and delivering a balanced budget.	CSD	HIGH	The council is currently facing significant financial pressures in many areas of its budgets although is trying to develop strategies to fund them. This is a challenging process but is being considered as a strategic risk at the highest level.	HIGH
Finance and resources	Risk of the financial envelope of the pay award and the impact on the budget.	CSD	HIGH	The council is currently facing significant financial pressures in many areas of its budgets and the pay award is one example, the decisions are made by third parties and are outside of the council's control.	HIGH
Data and systems	Risk of cyber-attacks and malicious attempts to damage critical services.	CSD	HIGH	PSN assurance certificate, regular health checks and regular vulnerability checks.	HIGH
People Services	Risks of ineffective recruitment across the organisation leading to capacity issues in key areas.	CSD	HIGH	Recruitment is challenging across all sectors. Mitigations being put in place to strengthen our recruitment offer centrally.	HIGH
Support Services	Financial and political risk associated with the simplification and changes to Council Tax Support policy for 2023/24.	CSD	HIGH	Member engagement and financial forecasting in place to mitigate risk.	HIGH

Risk theme	Risk	Lead directorate	Inherent score	Q1 mitigating actions	Residual score
People Services	Risk that there is non-compliance with mandatory training programmes.	CSD	HIGH	Work is being completed to address non-compliance. Technical difficulties require additional work.	MEDHIGH
Governance	Risk of election not being delivered due to legislative changes resulting in timescales and/or requirements that are not deliverable.	CSD	MEDHIGH	Numerous governance, checks and balances in place to ensure the election will be delivered.	MEDHIGH
Transformation	Risk that we do not deliver the Corporate Services transformation portfolio which is wide-ranging and ambitious.	CSD	MEDHIGH	Directorate Leadership Teams and Corporate Leadership Team taking the lead. Cover for transformation project management activities by other Corporate Services directorate staff. External resource for ICT and Digital review being explored.	MEDHIGH
Procurement	Risk that there is a reluctance to engage in competitive tendering processes from some key clients.	CSD	MEDHIGH	We continue to flag up risks and highlight in Procurement Plans.	MEDHIGH
Finance and resources	Risk that we are unable to deliver capital projects within the approved resource envelope.	CSD	HIGH	Ongoing monitoring process is in place together with risk management assessments to mitigate where required.	MED
Transformation	Risk that the Programme Management Office is not able to support the breadth of transformation portfolios across the organisation.	CSD	HIGH	Phase one of the Programme Management Office has launched which includes the capital and IT functions. There is now a full suite of templates with guidance and worked examples available to support projects. More work to do around awareness raising.	MED
Data and systems	Risk that multi-agency data sharing programmes are not agreed cross-council and NSC cannot take part leading to reputational damage.	CSD	HIGH	Positive progress on the Data Accelerator Programme. Future data sharing programmes are being managed by Business Intelligence and Information Management. Strong relationships in place.	MED
Support Services	Risks related to business continuity and ICT resilience arrangements in critical services.	CSD	HIGH	Analysis of critical systems and engaging with ICT Architecture Board.	MED

Risk theme	Risk	Lead directorate	Inherent score	Q1 mitigating actions	Residual score
Governance	Risk that the council's reputation is severely damaged or subject to legal challenge arising from a failure in Corporate Governance.	CSD	MED	Numerous governance, checks and balances in place to mitigate against this risk.	MED
Marketing and Comms	Risk that the corporate identity refresh will be delayed due to dependencies on other parts of the organisation and partners.	CSD	MED	This is already delayed and was something we were intending to introduce in 2021/22. Delivery now anticipated 2022/23 Q2. Good progress made at the start of Q2 to move this project on.	MED
Finance and resources	Risks to our overall organisational operational effectiveness due to the impacts of COVID-19.	CSD	HIGH	The Council's Corporate Plan 2020-2024 reflects the (then) present and future challenges presented by Covid and details how challenges can be overcome. In turn, Directorate Statements were published in April 2022, and these describe how each directorate will help achieve the aims and priorities as set out in the Corporate Plan. Covid-related impacts, risk and budgetary forecasts continue to be monitored by directorates and included in financial monitoring.	LOWMED
Transformation	Risk that we do not deliver the Empowering Communities transformation portfolio which is wide-ranging and ambitious.	CSD	HIGH	The Empowering Communities Strategy and action plan has been reviewed, especially in light of the cost of living crisis which the team will be leading on.	LOWMED
Transformation	Accommodation and future ways of working. Risk that we are not able to complete this work to challenging timescales and in a way that is acceptable to the organisation and partners.	CSD	MEDHIGH	Programme and project governance in place and monitored by Corporate Leadership Team. Communication and engagement plan active and operating.	LOWMED
Data and systems	Risk that we are unable to protect customer and citizen data and ensure compliance with GDPR.	CSD	MEDHIGH	Training programme being reviewed and linked in with mandatory training requirements. Reporting to ICT Architecture Board.	LOWMED
Marketing and Comms	Risk of elements of the Communication Strategy not being delivered due to capacity issues and unforeseen events.	CSD	MEDHIGH	Deputy Head of Comms role being filled in October 2022 which will extend team's capacity to deliver comms strategy action plan.	LOWMED

Risk theme	Risk	Lead directorate	Inherent score	Q1 mitigating actions	Residual score
Procurement	Risk that we are unable to adapt to new ways of working and making them effective for procurement activities.	CSD	LOWMED	Utilise new ways of working and encourage face to face meetings where risk is considered to be high.	LOW
Support Services	Risk to support services operational effectiveness due to further cost of living support schemes.	CSD	LOWMED	Engaged in a detailed design with Executive members and validation with other local authorities.	LOW

Public Health and Regulatory Services directorate:

Risk theme	Risk	Lead directorate	Inherent score	Q1 mitigating actions	Residual score
Operations	Risk that not all our critical services have business continuity plans.	PHRS	HIGH	Additional resourcing to continue the roll out of business continuity plans.	MEDHIGH
Operations	Risks affecting the construction industry impacting on DFG delivery, government funded retrofit programmes and rented sector maintenance.	PHRS	HIGH	New contract in place for stairlifts etc, some sector pressure easing to improve year end outcome but inflationary pressures still impacting across sector.	MED
Operations	Risk related to an emerging challenge associated with external cladding and legislative requirements.	PHRS	HIGH	Staff trained on initial assessment. Liaising with Tower safety on implementing new regime due Jan 2023.	MED
Operations	Risk to securing future funding for home energy efficiency work via government competition competing with other local authorities.	PHRS	MEDHIGH	Strong partnership to work as consortium with West of England. New data tool will help targeting and strengthen future bids.	MED
Finance and resources	Risk that we do not manage budgets effectively in-year and ensure a balanced budget.	PHRS	HIGH	Current years monitoring and forecasts are on track.	LOWMED

Risk theme	Risk	Lead directorate	Inherent score	Q1 mitigating actions	Residual score
Operations	Risk of a major incident related to food safety that we cannot respond to due to reduced resource.	PHRS	HIGH	In the event of a major incident realignment of workstreams and ceasing of some of the lower risk interventions.	LOWMED
Finance and resources	Risk of recruitment and retention for key roles across the directorate.	PHRS	MED	Risk of recruitment and retention for key roles across the directorate. Promotion of new roles through a broad range of local and specialist networks e.g., Public Health Jobs twitter feed. Evidence of 'growing our own' into roles from work experience/volunteering.	LOWMED
Operations	Risk of failure to recover the food safety intervention programme in line with the Food Standards Agency expectations and framework.	PHRS	MED	There is minimal risk at present as we are on track to meet all Food Standards Agency key milestones.	LOWMED
Transformation	Risk that we do not implement and deliver the transformational projects required to meet the directorate challenges.	PHRS	LOWMED	Continued push to integrate our work with priorities of other agencies to attract resources/support for key changes identified. Continued focus on developing the team to maintain high performance and manage prioritisation effectively.	LOWMED
Operations	Risks of service downtime due to the migration to the new cloud based version of the CIVICA database.	PHRS	LOWMED	Long run-in and test phase should ease transition with "look-up" version of current database still available reducing incidence of inaccessible data.	LOWMED
Operations	Risks to regulatory services operational effectiveness due to COVID-19.	PHRS	LOWMED	Teams have additional short term capacity to catch up on work delayed by response to the pandemic.	LOWMED
Operations	Risks to public health operational effectiveness due to COVID-19.	PHRS	LOWMED	Staff cover across teams internally and in commissioned services enabling continued delivery.	LOW

Place directorate:

Risk theme	Risk	Lead directorate	Inherent score	Q1 mitigating actions	Residual score
Finance and resources	Risks of significant financial pressures across the directorate due to increases in energy costs and inflation.	Place	HIGH	Reviewing in year position to mitigate impacts. Working with procurement where needed to ensure award of contracts at best times.	HIGH
Major Infrastructure Projects	Risks to funding for MetroWest inc. capital elements.	Place	HIGH	Intensive work with project partners West of England Combined Authority and Department for Transport to close the funding gap in a timely way to allow Development Consent Order to be confirmed.	HIGH
Operations	Failure to recruit / retain skilled roles leading to failure to deliver decisions within agreed timescales and incur risk of fee refunds.	Place	HIGH	Ongoing dialogue with People Services to explore mitigations. Labour market remains very competitive and affordability of options to be appraised.	HIGH
Operations	Risk to development of transport and highways scheme pipeline and delivery of projects.	Place	HIGH	Linked to capacity issues. Ongoing dialogue with People Services to explore mitigations.	HIGH
Operations	Risk of having no waste depot to operate from beyond 2027.	Place	HIGH	Depot strategy is due to address this. It is in early stages.	HIGH
Operations	Risk related to all council owned trees (tree risk management).	Place	HIGH	Additional tree surgery gangs are required to meet the demand for high priority tree work as required in the Tree Risk Management Plan.	HIGH
Operations	Ash dieback risk - health and safety risk from falling trees, financial risk as cost of removal is high.	Place	HIGH	Resources have been set aside to address Ash dieback.	HIGH
Placemaking	Delay to Local Plan process exposes council to risk of speculative development and unplanned growth through appeal.	Place	HIGH	The council continues to progress the preparation of the Local Plan with the intention to submit to the Secretary of State for Examination during Q4. A new Local Plan will reset the council's five year housing land supply.	HIGH

Risk theme	Risk	Lead directorate	Inherent score	Q1 mitigating actions	Residual score
Placemaking	Risk that the lack of five-year supply could lead to the council being exposed to appeals for residential development in sub-optimal locations and additional costs of appeal.	Place	HIGH	Progressing and adopting a new Local Plan can reset the council's 5 year land supply.	HIGH
Climate Emergency	Flood risk - climate change and rising sea levels present a significant risk to people, property and the economy on low lying land across North Somerset.	Place	HIGH	We are preparing the Local Flood Risk Management Strategy which will be published in mid-2023.	HIGH
Climate Emergency	Risks to achieving a net zero position by 2030 given current resources and sphere of influence.	Place	HIGH	All directorates finalised their directorate specific action plans in Q1, and work will not continue on these.	HIGH
Major Infrastructure Projects	Risk related to the infrastructure required to support Local Plan led growth and the decarbonisation of transport.	Place	HIGH	Officers to prepare framework masterplans and brief members on the key controversial infrastructure requirements.	MEDHIGH
Operations	Deteriorating condition of highways and footway assets.	Place	HIGH	Whilst the condition of the highway is deteriorating, we undertake safety inspections and undertake reactive works (including 2 hour emergencies) to maintain safety.	MEDHIGH
Placemaking	Delivery of significant capital projects to time and budget including MetroWest and Highways Infrastructure Fund due to inflationary pressure.	Place	HIGH	Fundamental cost review, scrutiny of all cost inputs, and costing exercises underway.	MEDHIGH
Placemaking	Risk to the development programme and delivery due to inflationary pressure and local community consultation.	Place	HIGH	Briefings with Corporate Leadership Team and elected members, to include clear explanation of choices and impacts.	MEDHIGH

Risk theme	Risk	Lead directorate	Inherent score	Q1 mitigating actions	Residual score
Transformation	Risks related to the condition of corporate estate resulting in financial and operational risks.	Place	HIGH	New systems and process are being implemented and a revised structure for property resources developed. Funding has been identified to develop investment plans for key priority assets within leisure, libraries, and depots. Implementation of the Corporate Landlord and appointment of a new Senior Asset Manager.	MED
Transformation	Risk around the ongoing management development of the Capital Programme Management Office and that once developed the PMO is not able to support the breadth of projects.	Place	HIGH	This risk based approach cannot eradicate incidents or risk but does focus on highest consequence so that major failure and any risk of serious incident is kept as low as reasonably practical.	MED
Finance and resources	Risk that we do not manage revenue budgets effectively in-year and ensure a balanced budget.	Place	HIGH	The directorate is forecasting an overspend. Mitigating actions are being reviewed to help with the in-year position.	MED
Operations	Financial risk on milestone contract - underperformance in volumes of work results in financial pressure on overhead payment for contract.	Place	HIGH	Overhead is managed dynamically throughout the year.	MED
Operations	Risk of limited police and community safety resource in North Somerset.	Place	HIGH	Good liaison with police, review of community safety services and partnerships.	MED
Finance and resources	Risk that income levels in community buildings does not recover post covid.	Place	MED	Deep dive reviews commencing in Aug 2022 to understand the current position and look at options to mitigate any overspends.	LOWMED
Transformation	Risk of failure to agree and implement parking strategy.	Place	LOWMED	Officers to prepare draft policy framework for member input.	LOWMED

Risk theme	Risk	Lead directorate	Inherent score	Q1 mitigating actions	Residual score
Finance and resources	Risk that we do not deliver savings against the Medium Term Financial Plan.	Place	MED	Most of the Medium Term Financial Plan savings within the directorate are on track to be delivered in 2022/23.	LOW
Operations	Risk that the provisions of the Environment Act 2021 conflict with North Somerset's operational and financial models for waste and the natural environment.	Place	LOW	Provisions for the natural environment or waste will not be known in any detail until later in 2023. Consultation has taken place but detail from Central Government is delayed with no firm date set for implementation.	LOW

North Somerset Council

Report to the Audit Committee

Date of Meeting: 22nd September 2022

Subject of Report: Internal Audit Update September 2022

Town or Parish: None

Officer/ Member Presenting: Peter Cann - Audit West

Key Decision: No

Recommendations

The Audit Committee is asked to:

- Note progress in delivery of the 2022/23 Annual Audit Assurance Plan.

1. Summary of Report

This report provides an update on progress in delivering the 2022/23 Internal Audit Annual Assurance Plan.

2. Policy

The work of the Internal Audit Service is to provide independent assurance to the council's senior officers and members that governance, risk management and controls are sufficient in ensuring delivery of the council's objectives.

3. Details

The summary position as at September 2022 is as follows:

- There have been no audit reports issued where it was considered that the overall systems of internal control provided 'No Assurance' or 'Limited Assurance'.
- Work on the plan is well underway and as at the 1st September, approximately 53% of audit activity was in progress or complete.
- All recommendations that were due to be implemented have been followed up.
- One new investigation has been started and completed. Separate to this, a detailed fact-finding piece of work is also nearing completion.
- A range of fraud prevention and detection measures are in place and work is ongoing to continue to support the Council's fight against fraud.

1) **SIGNIFICANT ISSUES**

Assurance Levels and Significant Risks

- 1.1 Of the audits completed where an assurance rating has been given, there have been no internal audit reports issued so far this year where it was considered that the systems of internal control were poor (Level 1) or weak (Level 2).
- 1.2 There have also not been any significant control issues identified so far during our consultancy, advice and guidance work.

Investigations and Unplanned Work

- 1.3 Internal Audit were asked to investigate two allegations within the Place Directorate which related to reported non-compliance with procurement processes.

In addition, a related matter was also requested to be included within the investigation, which concerned the escalation process for complaints and the reporting of unresolved customer issues.

- 1.4 The investigation has been completed and the overall conclusion is that neither of the two allegations were substantiated. The review of the customer service processes found that procedure was correctly followed in this specific instance and that the wider processes in general are operating reasonably effectively.
- 1.5 The full findings from the review have been reported to the Director of Corporate Services and the Assistant Director (Placemaking & Growth).
- 1.6 In addition to the investigation described above, Internal Audit were also asked to undertake a detailed review of the project management and decision-making process around the council's Garden Waste subscription service. Whilst audit work in this service area was already planned for 2022/23, the scope of the planned review has changed and the depth of the work increased at the request of Senior Management. Work is nearing completion and initial findings verbally reported to the Assistant Director (Neighbourhoods & Transport).

Counter Fraud

- 1.7 The prevention of fraud will become increasingly important as we enter the winter months and the cost-of-living crisis deepens.
- 1.8 In preparation for this, we have already revised the Counter Fraud Strategy and updated all associated policies, and these were approved by the Audit Committee in April. We have since uploaded these to the staff intranet pages, so that they are available to employees.
- 1.9 In order to further support the Council in this area, over the coming months we will be using resources to further develop staff awareness and promote a positive anti-fraud culture. Members will be updated on this activity as work progresses and the Committee may also wish to consider any new fraud risks that they have identified since the audit plan was developed.

- 1.10 Data analytics work is in progress in order to prevent and detect internal fraud and error. Internal data matching takes place throughout the year and this is partly completed via IDEA – an internal audit data analytics software tool.
- 1.11 In respect of external matching, Members are advised that work on the National Fraud Initiative (NFI) 2022/23 has begun. The work to participate in this process is involved and takes place over several months, with matches timetabled to be ready by January/ February 2023.
- 1.12 Finally, we also expect to see an increase in Fraud referrals from external sources and the recently refreshed fraud/ whistleblowing reporting tool on the Council's website will help enable the public to make these referrals:
<https://www.n-somerset.gov.uk/form/fraud-referral-report>

2) COMPLETION OF AUDIT PLAN

2.1 There are currently 47 pieces of audit work within the plan and there have been no major changes to it since it was agreed in April 2022. Of the total number of audits:

- 4 Audits had been completed and 1 was at reporting stage
- 11 Audits were in progress, 4 were ongoing pieces of work and 5 were in planning
- 22 Audits were yet to commence

A breakdown of detailed activity is shown below.

Audit Area	Status	Opinion	No of Rec's	High	Medium	Low
Fraud - Data Analytics	In Progress					
Fraud - National Fraud Initiative (NFI)	In Progress					
Fraud - Training, Advice and Guidance	In Progress					
Governance - Annual Governance Statement	Ongoing					
Governance - Audit Committee, Boards, Advice and Guidance	Ongoing					
Follow-up of Previous Year Recommendations	Ongoing					
Weston Town Centre Transport Enhancement Scheme	Complete	N/A	N/A	-	-	-
Travel Demand Management Grant	Complete	N/A	N/A	-	-	-
High Impact Families / Supporting Families	In Progress					
Metro West LGF	Complete	N/A	N/A	-	-	-
Weston General Stores	Complete	N/A	N/A	-	-	-
Transitions Fund	In Progress					
CBSSG	Reporting					
Test and Trace Payments	Not Started					
Grant Thornton Value for Money Review	Not Started					
Budget Setting Process	Planning					
Contracts/ Procurement	Not Started					
Agilisys/ Liberata KPI's	Planning					
ICT - Network Access Configuration	In Progress					
ICT - 3rd Party Web Based Systems	Not Started					
ICT - Mobile Devices	In Progress					
Information Governance	Not Started					
Capital Governance	Not Started					
Register of Interests & Declaration of Gifts and Hospitality	Not Started					
Mandatory Training - Implementation of Revised Procedures	Planning					
Lone Working	Not Started					
North Somerset Environment Company	Not Started					
Updates to Payroll System - Series of Audit/ Assurance Work	In Progress					
Garden Waste	Reporting	N/A	N/A	-	-	-
Sea Front Concessions	Not Started					
Placemaking/ SEE MONSTER event - Advice and Guidance	Ongoing					
Home to School Transport Service	Not Started					
Fleet Management	Not Started					
Car Parking Income	Not Started					
Planning Service	Not Started					
Direct Payments	Not Started					
Emergency Payments/ Welfare Provision	Planning					
Housing - Homelessness Prevention Service	Not Started					
Payments to Foster Carers	Not Started					
Children's Services Placements - Governance & Procurement Arrangements	Not Started					
School Assurance Visit - Baytree School	Planning					
School Assurance Visit - St Joseph's School	Not Started					
School Assurance Visit - Golden Valley School	Not Started					
School - Follow-up work	In Progress					
School Financial Value Standard	Not Started					
School Fund Certificates	In Progress					
Capita System	Not Started					

3) IMPLEMENTATION OF RECOMMENDATIONS

- 3.1 A total of 37 recommendations have been made this financial year. This includes recommendations made from 2021/22 audits where the reports were issued in 2022/23. Specifically, there were 6 High, 26 Medium and 4 Low rated recommendations. One specific opportunity was also highlighted.
- 3.2 Whilst all of the recommendations that are due to be implemented have been followed up with the officer(s) responsible, we are still awaiting responses on nine recommendations across two audits to confirm the recommendations have actually been implemented. These are shown below in Table 1.

TABLE 1: Recommendations due - awaiting evidence to confirm implementation

Audit Name	Recommendations Raised				Recommendation Status	Planned Implementation Date
	High	Medium	Low	Total		
ICT - Software Asset Management	1	7	0	8	Followed-up – Awaiting evidence	01/09/2022
MetroWest & HIF	0	0	1	1	Followed-up – Awaiting evidence	01/09/2022
	1	7	1	9		

- 3.3 A full breakdown of recommendations raised this financial year is shown in Appendix B. This information will be updated throughout the year and reported regularly to the committee so that Members can understand any common areas of weakness across various service areas. For transparency, any recommendations made which were not agreed by the auditee will also be recorded in this summary.

4. Consultation

In developing and delivering the Annual Audit Assurance Plan the Internal Audit Service has consulted widely with officers and members.

5. Financial Implications

There are no direct financial implications from this report which is focussed on updates.

6. Legal Powers and Implications

There are no direct legal implications from this report which is focussed on updates.

7. Climate Change and Environmental Implications

The council faces a wide variety of climate change and environmental impacts whilst delivering its many services to residents, some of which have a direct or indirect

financial impact or consequence. There are referenced or noted, where appropriate, throughout the report.

8. Risk Management

Significant risks to the council arising from an ineffective Internal Audit Service include lack of internal control, failures of governance and weak risk management. Specific risks include supplementary External Audit Fees and undetected fraud. The Internal Audit Service assists the council in addressing its risk profile. Internal Audit helps by identifying risks, improvement areas and by institutionalising good practice.

9. Equality Implications

Embedded within the audit process is consideration of compliance with statutory guidance and regulations which includes those relating to equality and diversity.

10. Corporate Implications

Failure to deliver the agreed Annual Assurance Plan may result in an inability to provide assurance to officers, members and the public of the soundness of the council's corporate governance.

11. Options Considered

None

AUTHORS

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BACKGROUND PAPERS

Annual Audit Assurance Plan 2022/23
Internal Audit Annual Report 2021/22

Audit Committee April 2022
Audit Committee April 2022

Appendix A – Internal Audit Opinions

Assurance Rating	Opinion
Comprehensive Assurance - Level 5	The systems of internal control are excellent with a number of strengths and comprehensive assurance can be provided over all the areas detailed in the Assurance Summary
Substantial Assurance – Level 4	The systems of internal control are good and substantial assurance can be provided. Only minor weaknesses have been identified over the areas detailed in the Assurance Summary
Reasonable Assurance – Level 3	The systems of internal control are satisfactory and reasonable assurance can be provided. However there is one area detailed in the Assurance Summary which requires improvement and specific recommendations are detailed in the Action Plan
Limited Assurance – Level 2	The systems of internal controls are weak and only limited assurance could be provided over a number of areas detailed in the Assurance Summary. Prompt action is necessary to improve the current situation and reduce the risk exposure
No Assurance – Level 1	The systems of internal controls are poor , no assurance can be given and there are fundamental weaknesses in the areas detailed in the Assurance Summary. Urgent action is necessary to reduce the high levels of risk exposure and the issues will be escalated to your Director and the Audit Committee

Appendix B – Recommendation Tracker

Status	Audit Name	Description	Priority	Agreed with Auditee	Final Report Date	Planned Implementation Date	Date Implemented
Implemented	Payments to Child Care Providers	<p>It is recommended that the reconciliations are independently checked and signed by the Funding Manager each month and a record is held of completed account reconciliations.</p> <p>The record should include the date the reconciliation was approved, the reviewers name, and details of the independent check. This information could be recorded within an existing monthly checklist or signed and dated on a paper copy and retained as proof that the check has been undertaken.</p>	Medium	Yes	05/04/2022		05/04/2022
Not Yet Due	Payments to Child Care Providers	<p>The Funding Manager should ensure that periodic audit visits are carried out to check childcare providers are providing accurate funding claim information. It is recommended the level of provider visits should be appropriate to the number of providers and / or problems identified during the claim process.</p> <p>It is recommended that attendance records are reviewed in detail to check they match the Parent Declaration Form and funding claims to confirm the funded hours being paid are accurate. Any queries raised should be recorded and retained to support all anomalies and where issues have been identified these should be reported to the childcare provider. Any inaccuracies should be followed up with an amended payment/ reclaim of funds and the outcome of the visits should be reported to the EY Service Manager to ensure appropriate management action can be carried out.</p>	Medium	Yes	05/04/2022	31/03/2023	
Not Yet Due	Payments to Child Care Providers	<p>It is recommended that the Funding Officer should develop version controlled operational procedural guidance for the funding team to ensure that the early years funding claims are processed in a consistent manner.</p>	High	Yes	05/04/2022	31/03/2023	

Implemented	Payments to Child Care Providers	It is recommended that the Funding Team obtain a signed agreement from childcare providers to confirm they have read and understood the terms and conditions of the North Somerset Agreement. A record should be held of the signed agreements and if changes are made to the agreement a new signed copy should be held.	High	Yes	05/04/2022	05/04/2022
Not Yet Due	Payments to Child Care Providers	It is recommended that additional staff within the funding team are trained to cover the role currently undertaken by the individual undertaking payments to childcare providers to ensure continuity in the service.	High	Yes	05/04/2022	31/03/2023
Implemented	Financial Assessments (Non-Residential)	<p>Quality checks should be conducted to ensure that the assessments are fully completed and that all appropriate documents are obtained.</p> <p>Customer records sheet not fully completed in all cases.</p> <p>Copies of bank details should be obtained where possible to ensure the service users do not have sufficient funds to pay for services themselves.</p>	Medium	Yes	19/04/2022	30/06/2022
Not Yet Due	Financial Assessments (Non-Residential)	<p>A record log of appeals should be maintained which evidences the details of the appeal, the dates of all actions taken and the outcome or findings of the appeal. Details of the number and types of appeals should be reviewed so that they can be used to identify any issues or training requirement for staff.</p> <p>The ability to appeal the financial assessment and details of the process should be made available to the service user.</p>	Medium	Yes	19/04/2022	12/09/2022

Not Yet Due	Financial Assessments (Non-Residential)	<p>Procedure notes should be produced outlining all the steps required for the annual update of the system, to ensure that staff are aware of the process. Regular reviews of this procedural guidance should be undertaken on at least an annual basis or when important changes are made to the process. The procedure notes should be document controlled with the date of the review and any amendments included in a version control sheet within the document. Once updated the revised procedures should be disseminated to all appropriate staff in a timely manner and made easily accessible. A sign off sheet or other evidence should be retained to evidence that the annual update has been fully completed in line with the procedures.</p>	Medium	Yes	19/04/2022	31/03/2023
Not Yet Due	Financial Assessments (Non-Residential)	<p>It is recommended that the review currently being undertaken out on the Financial Assessments toolkit is completed to ensure that it is up to date. Regular reviews of this document should be undertaken on at least an annual basis or when important changes are made to the process. The toolkit should be document controlled with the date of the review and any amendments included in a version control sheet within the document. Once updated the revised procedures should be disseminated to all appropriate staff in a timely manner and made easily accessible.</p>	Medium	Yes	19/04/2022	31/03/2023
Not Agreed	Financial Assessments (Non-Residential)	<p>When the system was set up it was required to obtain a signature either a physical paper based or electronic on an Ipad. The legal advice, whilst acknowledging presumed consent, also advises that it would be better to also obtain digital confirmation. It would be relatively simply to send out the physical letter to service users asking them to sign and return the letter to confirm acceptance. As a result, letters should be sent to service users requiring them to sign and accept the terms and conditions. Once face to face financial assessments resume after the conclusion of the pandemic, the system of obtaining digital signatures should be resumed.</p>	Medium	No	19/04/2022	<p><i>I do not envisage a time when face to face visits will recommence. Printing, sending and then monitoring return signatures will be onerous. I offer an alternative whereby we implement an on-line self-service financial assessment process. Investigations are underway. If we do not implement an on-line solution I will consider sending paperwork in the post for service users to sign and return.</i></p>

Not Yet Due	Housing Jigsaw System	<p>The Housing Assessment Team Manager should develop a formal Quality Assurance process which should be referred to in the current policy (see M1 and M2 above). This would include (but not limited to)</p> <ul style="list-style-type: none"> • maintaining a central record of all completed sample checks. • developing a methodology for picking work types included for sample checking • a risk-based approach should be considered. 	Low	Yes	09/05/2022	03/10/2022
Not Yet Due	Housing Jigsaw System	<p>The Housing Solutions team should ensure that procedure guidance is in place for this scheme and made available to the relevant parties including Housing Associations.</p> <p>Regular reviews of these procedures should be undertaken on at least an annual basis or when important changes are made to the process. The procedural manuals should be document controlled with the date of the review and any amendments included in a version control sheet within each procedural manual. Revised procedures should be disseminated to all appropriate staff in a timely manner and made easily accessible.</p>	Medium	Yes	09/05/2022	03/10/2022
Not Yet Due	Housing Jigsaw System	<p>The Housing Solutions team undertake a periodic review of users and user access levels. This would include regular review of third parties with access to the system.</p>	Medium	Yes	09/05/2022	03/10/2022
Not Yet Due	Housing Jigsaw System	<p>The Housing Service should undertake a review of the Home Choice Letting and Assessment Policy and where necessary ensure this is subject to formal consultation.</p> <p>The review of the policy should include:</p> <ul style="list-style-type: none"> • Review of debt/arrears levels. • Adding a section on changes in circumstance. • Development of policy for when automatic bidding is applied. • Data protection /GDPR requirements including DPIA. 	Medium	Yes	09/05/2022	01/10/2022

Not Yet Due	Housing Jigsaw System	The Housing Solutions team should work with the systems provider to resolve this issue. Where practicable, evidence should be maintained on one central record to enable the Housing teams to access to supporting records/evidence provided by customers.	Medium	Yes	09/05/2022	03/10/2022
Not Yet Due	Housing Jigsaw System	The Housing Solutions team should make use of the online forum to discuss usage/future development of the current system with other Local Authorities.	Opportunities	Yes	09/05/2022	03/10/2022
Not Yet Due	Housing Jigsaw System	The Housing Solutions team should develop the existing dashboard to enable them to monitor annual review process. We consider this would be useful for monitoring purpose and would provide assurance that the system/process are correctly identifying and processing annual reviews.	Low	Yes	09/05/2022	03/10/2022
Not Yet Due	Housing Jigsaw System	The Housing Solutions team should consider paper notification for vulnerable housing applicants. This would include annual review notifications.	Low	Yes	09/05/2022	03/10/2022
Not Yet Due	Housing Jigsaw System	The Housing Solutions team should develop standard user profiles linked to job roles. These profiles should be subject to regular review in line with recommendation M3 above.	Medium	Yes	09/05/2022	03/10/2022
Not Yet Due	Housing Jigsaw System	The Housing Solutions team should review the usage of checklists in future. This should include consultation within the team, and also with other Local Authorities who use this system.	Medium	Yes	09/05/2022	03/10/2022
Not Yet Due	Housing Jigsaw System	The Housing Solutions team should provide formal notification of any changes to banding (following their original application).	Medium	Yes	09/05/2022	03/10/2022
Due – Awaiting Evidence	MetroWest & HIF	It is recommended that the Project Management Plans/ Delivery Manual are reviewed by management at pre-defined intervals. These intervals should be set In-line with the project, taking place at the end of each stage of the project's lifetime. These reviews should then be recorded on a version control sheet within the document.	Low	Yes	27/05/2022	01/09/2022

Due –
Awaiting
Evidence

ICT - Software Asset Management	<p>The Information & ICT Security Manager should:</p> <ul style="list-style-type: none">- Implement periodic spot-checks of internet logs to detect shadow IT /unauthorised web-based software use. Spot checks could target different service areas each time they are performed.- Shadow IT should be embedded into a self-assessment policy that invites service areas to identify and analyse their use of shadow IT, and feed results back to IT services for record keeping and resolution.- Instances of shadow IT detected should be reviewed and evaluated, highlighting any reasons why IT were not directly involved in sourcing the service.	Medium	Yes	09/08/2022	01/09/2022
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Due –
Awaiting
Evidence

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ICT - Software Asset Management	<p>The Information & ICT Security Manager, in liaison with the IT Service Provider, Agilisys, should request and review periodic reports on software purchased, deployed and available within the Council.</p> <p>The Information & ICT Security Manager should use custom reports to perform more detailed analysis, which may in turn help to inform decision making and produce cost saving benefits.</p> <p>Examples of periodic reports are:</p> <ul style="list-style-type: none">- Software installed reconciled against records of software purchased- New types of software procured- Software licenses expired- Maintenance and support agreements that have lapsed- Total software purchases (including licence and maintenance agreements) vs Savings made.	Medium	Yes	09/08/2022	01/09/2022
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Due – Awaiting Evidence	ICT - Software Asset Management	<p>The Information & ICT Security Manager, in liaison with the IT Service Provider, Agilisys, should review the user access listing, once received, for appropriateness.</p> <p>Agilisys should request an access list from Snow on at least an annual basis, or when a member of Agilisys staff leaves/changes role. This list should be reconciled to the existing access list to confirm accuracy.</p>	Medium	Yes	09/08/2022	01/09/2022
Due – Awaiting Evidence	ICT - Software Asset Management	<p>The Information & ICT Security Manager, in liaison with the IT Service Provider, Agilisys, should set agreed project milestones and a realistic completion date for the implementation and optimisation of Snow as the single inventory method for licensed software assets.</p> <p>Additionally, the Council should seek assurance regarding the adequacy of the backup arrangements of the Snow system.</p>	Medium	Yes	09/08/2022	01/09/2022
Due – Awaiting Evidence	ICT - Software Asset Management	<p>The Information & ICT Security Manager, in liaison with the IT Service Provider, Agilisys, should create and implement a software asset disposal process. This process could be embedded within existing policy and procedure.</p> <p>Within the software asset disposal process, establish how sensitive data contained within licensed software is removed as part of the decommissioning process and the point at which the Software Inventory is updated.</p>	High	Yes	09/08/2022	01/09/2022
Due – Awaiting Evidence	ICT - Software Asset Management	<p>The Information & ICT Security Manager should update the IT Risk Register to include risks and mitigating actions related to Software Asset Management.</p> <p>Examples of software asset risks are:</p> <ul style="list-style-type: none"> - Risk of malicious, faulty, outdated, or unsupported software in use. - Risk of unregulated shadow IT. 	Medium	Yes	09/08/2022	01/09/2022

**Due –
Awaiting
Evidence**

ICT - Software Asset Management	The Information & ICT Security Manager should update the Council's Acceptable Use Policy to include guidance and direction aimed at regulating shadow IT (services that have not been approved by IT).	Medium	Yes	09/08/2022	01/09/2022
ICT - Software Asset Management	The Information & ICT Security Manager should include periodic awareness updates within the circular newsletter ('The Knowledge') that address the use of shadow IT.	Medium	Yes	09/08/2022	01/09/2022

Interfaces
(Liquid Logic/
ContrOCC/
Agresso)

The exception reporting functionality should be switched on within the ContrOCC system for both Adults and Children's services.

High

Yes

11/08/2022

30/01/2023

Exception reporting could include areas such as:

- Accounts
- Actuals
- Care Package Line Items
- Clients
- Contract Payment Methods
- Contract Payment Periods
- Invoice Item
- Payment Item
- Service and Block Commitment Service Provision.

Consideration should also be given to the exception reports referred to in the user guide, these include:

- Invoices Exceptions – reports on a specific Invoice and all related entities, for example Cost
- Items (in the Payment Reports section)
- Payments Exceptions (Payment Reports)
- Pending Payments Exceptions – report for authorised but not finalised Payments (Payment Reports)
- Scheduled Payments Exceptions (Payment Reports)
- Clients Exceptions (Client Reports)
- Provider Exceptions (Services Reports)

We consider that exception reporting to be a key control within this system, and steps should be undertaken by both the Adults and Children's services to configure the level of exception reporting that is required.

Implemented	Interfaces (Liquid Logic/ ContrOCC/ Agresso)	<p>The Finance Business Partner should review spending limits within Liquidlogic/ContrOCC for each approved individual to ensure that they are appropriate and relevant.</p> <p>The spending limits applied to the authorised personnel should not exceed the levels as specified in the Council's Scheme of Delegation.</p> <p>Spending limits should be subject to at least an annual review or when an individual's role changes and records should be kept of the outcome, including any actions taken.</p>	Medium	Yes	11/08/2022	11/08/2022
Not Yet Due	Interfaces (Liquid Logic/ ContrOCC/ Agresso)	<p>The Children's Systems Governance Board should liaise with Liquidlogic to ascertain if the system functionality can be amended to flag care packages that are:</p> <ol style="list-style-type: none"> 1) approaching their end date; 2) where no end date has been entered; 3) packages where the child is approaching eighteen years of age. <p>The contract wording with the provider should be reviewed to ensure that the provider is required to pay back funds if an overpayment is made due to an error by either party.</p>	Medium	Yes	11/08/2022	01/01/2023
Not Yet Due	Interfaces (Liquid Logic/ ContrOCC/ Agresso)	<p>The Information and ICT Security Manager should liaise with the Agilisys Systems Access team to ensure that they carry out a regular review of the users of ContrOCC Adults and ContrOCC Children's to verify that the level of access is appropriate for their job role, and to check if access needs to be removed for any persons who no longer need access or have left the council.</p> <p>The review should take place on at least an annual basis and a record should be held of the outcome of the review, including any actions taken.</p>	Medium	Yes	11/08/2022	30/01/2023

Not Yet Due	Interfaces (Liquid Logic/ ContrOCC/ Agresso)	<p>The Children’s Systems Governance Board should liaise with Liquidlogic to determine whether system-controlled segregation of duties could be implemented for LCS.</p> <p>The Children’s Systems Governance Board should also determine whether LAS has the same segregation of duties issue.</p> <p>In the interim period, the operational Manager for Adults Services and Children’s Services should implement a monthly review of system audit trails to ensure that segregation of duties is maintained.</p>	Medium	Yes	11/08/2022	30/01/2023
Not Yet Due	Interfaces (Liquid Logic/ ContrOCC/ Agresso)	<p>The NSC Lead for the care systems (LCS and ContrOCC) should develop formal training to ensure new and existing users are given appropriate and relevant training for their job function. Consideration should be given to ensuring that the training developed for LCS and ContrOCC is aligned with that of LAS.</p> <p>Refresher training and updates should also be provided on at least an annual basis and when procedures change.</p> <p>Evidence of staff training should be retained.</p>	Medium	Yes	11/08/2022	01/01/2023
Not Yet Due	Interfaces (Liquid Logic/ ContrOCC/ Agresso)	<p>The Children’s Systems Governance Board should liaise with the vendor to explore exception reporting and this should be documented within the relevant risk register and minuted.</p> <p>The Children’s Systems Governance Board should investigate the reason for the overpayment of £476,850 in LCS and then identify manual compensating controls for example, checking controls could be introduced at the interface junction between LAS/LCS and ContrOCC. The outcome of the overpayment investigation should be documented and appropriate action taken to prevent a repeat occurrence.</p>	High	Yes	11/08/2022	30/01/2023

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2020-21

August 2022



Agenda Item 9

Contents



We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



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Appendices

- A – The responsibilities of the Council
- B – Risks of significant weaknesses – our procedures and findings
- C – An explanatory note on recommendations
- D – Use of formal auditors' powers

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Executive summary



Value for money arrangements and key recommendation(s)

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We are required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

2020/21 was an unprecedented year in which the Council operated with the majority of its staff home working whilst supporting local businesses and residents through the pandemic. The Council incurred significant cost pressures relating to COVID-19, including support to adult social care providers, children's services and leisure providers. National periods of lockdown and social distancing restrictions created income pressures for the Council, particularly in relation to carparking and leisure services. The Council administered various grant schemes to support businesses and individuals through the pandemic, including £2.1m discretionary grants to businesses, £6.2m additional restrictions discretionary grants and £6.9m infection control grants. The Council also distributed £57.4m relating to the government grant schemes for small businesses, the retail, hospitality and leisure sector and restriction support grants. Against this background, and after accounting for a total of £112.8m in government funding which both supported Council services and funded the various pandemic-related grant schemes, the Council delivered a balanced budget for the year.

We have not identified any significant Value for Money (VFM) weaknesses, but have identified 11 opportunities for improvement which are set out in detail within our report.

Criteria	Risk assessment	Finding
Financial sustainability	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but four improvement recommendations made
Governance	No risks of significant weakness identified.	No significant weaknesses in arrangements identified, but two improvement recommendations made.
Improving economy, efficiency and effectiveness	No risks of significant weakness identified.	No significant weaknesses in arrangements identified, but five improvement recommendations made.



Financial sustainability

Overall we are satisfied that the Council had appropriate arrangements in place to manage the financial resilience risks it faced with regard to budget setting, monitoring, reporting and the medium term financial plan. We have not identified any risks of significant weakness in these areas but have identified opportunities for improvement. Specifically:

- the Chief Financial Officer's assurance on the level of reserves should include supporting information on how the minimum prudent level of General Fund balance is calculated,
- the Council should consider including a sensitivity analysis to demonstrate the range of impacts that future funding reforms could have and also for other key financial planning assumptions. We also recommend that the MTFP covers the current year plus five, in accordance with CIPFA best practice,
- treasury Strategy and Treasury Outturn reports should include detailed breakdowns of the budgets relating to interest costs, investment income and MRP, including performance against the budget at the year end, and
- the Council should ensure it has sufficient risk mitigation strategies in place for commercial property and ensure full compliance with the requirements of the revised Prudential Code.

Further details and management response is provided on pages 12-15.



Governance

We have not identified any areas of significant weakness in the Council's governance arrangements with regard to managing risk, setting ethical standards, internal control and budget monitoring but have identified opportunities for improvement. Specifically:

- the frequency that the Corporate Risk Register is reported to the Audit Committee should be increased to quarterly and risks should be mapped to corporate objectives.
- Capital monitoring to members, where there is a significant difference between the in-year estimated capital spend at a scheme level as part of the approved budget and the to date monitoring, we recommend a brief comment is included within the monitoring schedule to explain the reason for this.

Further details and management response is provided on pages 19 and 20.



Improving economy, efficiency and effectiveness

We have not identified any risks of significant weaknesses but we have identified five improvement recommendations, but have identified opportunities for improvement. Specifically:

- Improve the monitoring and evaluation of performance against the Corporate Plan and the Children's Services Improvement Plan in public council meetings
- ensure it has effective governance arrangements in place in relation to North Somerset Environmental Services Limited (NSEC) to:
 - actively and routinely monitor the service and financial performance, so that NSEC is held to account and under performance is addressed
 - consider the roles held by Council Officers on the NSEC Board to minimise the scope for conflicts of interest.
- adopt a data quality policy
- define its significant partnerships and develop a register that identifies the contribution that the partnerships makes to the Council's corporate objectives

Further details and management's response is provided on pages 25 and 29.



Opinion on the financial statements

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

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

We are also required to report whether other information published together with the audited financial statements, including the Annual Governance Statement (AGS) and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated

Our audit work was completed remotely during August to October 2021. Full details of our findings from the audit are detailed in our Audit Findings Report which was reported to the Audit Committee on the 20 September 2021.

Our audit work did not identify any material errors or adjustments to the financial statements. We did recommend a small number of adjustments to improve the presentation of the financial statements and a small number of recommendations for improvements which the Council agreed to take forward.

We gave an unqualified opinion on the Council's 2020/21 financial statements on 15 October 2021.



Commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources

All Councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:

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Financial sustainability

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



Governance

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



Improving economy, efficiency and effectiveness

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



Our commentary on each of these three areas, as well as the impact of COVID-19, is set out on pages 6 to 28. Further detail on how we approached our work is included in Appendix B.

Financial sustainability



We considered how the Council:

- responded to the financial challenges posed by the COVID-19 pandemic
- identifies all the significant financial pressures it is facing and builds these into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

Outturn 2020/21

The Council delivered a balanced General Fund budget position for 2020/21, against the revised budget that was increased by £33.7m to reflect additional COVID-19 funding allocated to services. Therefore no contribution was required from the General Fund balance, which was maintained at £9.1m at the year end.

Within this balanced position the impact of the pandemic was significant, creating pressures of £12.4m in Adult Social Services, £1.0m in Children's and £12.3m within Place. The Council received significant financial support from the government to fund the costs of the pandemic, including £14.6m in general COVID-19 support grant and £3.9m in compensation for lost sales, fees and charges. In total the Council received £112.8m of government funding during the year, including significant sums to be redistributed as business support grants, outbreak management and infection control funding.

The Council incurred capital expenditure of £47.8m compared to the budgeted figure of £66.4m. This was largely funded from £32.5m in grants and contributions, with the remainder funded from reserves, capital receipts and £3.3m borrowing. Spend equated to 72 percent of the planned programme, with delivery impacted by the effects of lock down and social distancing.

COVID-19 arrangements

COVID-19 posed a significant financial challenge to the Council's financial sustainability and made financial forecasting difficult as new periods of national lockdown were announced and additional tranches of government support allocated to councils. The estimated financial impact of the pandemic was reported to the Executive in July 2020 with a forecast pressure of £8.6m. Savings and mitigation measures of £3.5m were also identified, leaving a residual budget gap of £5.1m. Budgets were grossed up during the year to reflect increased expenditure in services funded from government grant.

The Council continued to monitor the costs of the pandemic through the monthly COVID-19 financial management returns to the government and regular reporting to the Executive. As the financial year progressed and as costs and government support became more certain, the net position reported to Members gradually improved from the £5.1m reported in July, to £3.9m by October and a budget gap of just £1k by April 2021.

Budget 2021/22

The 2021/22 budget was set based on the funding announced in the local government finance settlement. This largely froze the Council's funding assessment at current levels but introduced additional measures to support councils through their recovery from the pandemic, such as another tranche of general COVID-19 funding, additional sales, fees and charges (SFC) compensation grant, and a new one-off tranche of New Homes Bonus grant. The Council included the £4.9m COVID-19 support grant in the base budget matched by a central provision for continued COVID-19 pressures in 2021/22. The SFC compensation grant is available to mitigate losses against budgeted income.

Funding within the budget also includes a 4.99% increase in council tax which reflects the adult social care precept and is in accordance with referendum principles.

Our work has confirmed that the budget accurately reflects the annual funding settlement and is informed by the medium term financial plan (MTFP), which is updated as part of the budget report. Risks and assumptions relating to the budget are clearly set out and reported to Members.

The budget process for 2021/22 gave consideration to the 2020/21 non-COVID budget pressures which were likely to recur in future years. Additional growth provision was made for material pressures including children's placements, homes to school transport and adult social care. The budget also reflects cost drivers such as inflation on utilities and contracts and officer pay awards.

The 2021/22 budget includes the implications of the new Council-owned company North Somerset Environment Services Limited (NESL) delivering waste collection and recycling services. NESL is a local authority council controlled company 100% owned by the Council. Budgets have been rebased to reflect growth to the cost of the service, recycling income and future efficiency savings. The waste strategy implementation reserve is available to help mitigate net increases to the base budget in the short term.

The Council engages with stakeholders around budget proposals through publishing equality impact assessments online and holding a stakeholder discussion group. A series of online citizens panels were also held to obtain feedback on specific areas of the MTFP and service delivery. Member workshops are held during the budget process to enable scrutiny of budget assumptions, funding and savings proposals.

The budget report is accompanied by the Chief Finance Officer's statement on the adequacy of reserves and robustness of budget assumptions in accordance with S25 of the Local Government Act 2003. This contains a detailed commentary on the risks and assumptions contained within the budget, and the reserves strategy that confirms a minimum level of unallocated general fund reserves of £9m. We note that there is a working paper that supports the determination of the minimum prudent level of reserves which is based on the finance risk register. We have made an improvement recommendation that the S25 Statement would be strengthened by referring to how the minimum prudent level of reserves is calculated with reference to the financial risks that it is mitigating.

Overall we found no evidence of significant weaknesses in the Council's budget setting arrangements but have identified one improvement recommendation in respect of the information provided to support the minimum recommended level of General Fund balances.

Medium term financial plan (MTFP)

Review of the Council's MTFP indicates that financial planning is based on realistic assumptions and that these are clearly set out in reports to Members. The MTFP includes assumptions around New Homes Bonus, revenue support grant, business rate income, social care grants and council tax increases.

The MTFP covers a period of three years. There is additional uncertainty with financial planning due to the recent annual financial settlements, the pushing back of the fair funding review, and delay in the reset of the business rate retention scheme. Due to the uncertainty surrounding the impact and timing of these reforms to local government funding, they are not reflected in the MTFP but are flagged as a significant risk which will be reviewed as more information is released. We have made an improvement recommendation that the Council should consider including a sensitivity analysis to demonstrate the range of impacts that these reforms could have, even if they are not formally modelled in the MTFP. Sensitivity analysis could also be included for other key assumptions within financial planning, for example the number of children in care or demand for home to school transport. We also recommend that the MTFP covers the current year plus five, in accordance with CIPFA best practice.

The cumulative budget gaps identified in the February 2021 MTFP are set out in the table below.

Cumulative budget gaps identified in the February 2021 MTFP

Year	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
Budget gap	0	7.750	4.874	12.624

The September 2020 MTFP proposed that financial planning should be underpinned by transformation and innovation, with both Directorate level and Corporate programmes developed. The transformation programme for Children’s services would be aligned to the improvements required as a result of the Ofsted Inspection. This transformation process sits alongside more traditional budget processes for identifying savings and increases in income. Directorates received indicative savings targets, with MTFP update reports providing detailed information on savings identified as part of this process.

Savings included within the 2021/22 budget total £7.451m, with £1.225m identified for 2022/23 and £1.040m for 2023/24. The majority of these savings relate to transformation and income generation rather than reduced levels of service. The savings identified for future years are not sufficient to bridge the £12.624m gap identified in the MTFP for 2022/23 and 2023/24. The Council recognises that it needs to continue to plan and formulate strategic financial plans to balance the budget gap, and anticipates that the majority of future savings plans will relate to transformation and technology. The Council has a good track record of achieving savings. While the effects of the pandemic did delay savings relating to service reconfiguration, the 2020/21 outturn reports confirms that 85% of savings against the £5.235m target were achieved or mitigated with other measures.

The increasing number of children and young people with education, health and care plans continues to exert significant pressure on the High Needs Block of the Dedicated Schools Grant (DSG). The DSG overspent by £3.3m in 2020/21, which when added to the opening position, created an accumulated deficit of £7.15m at the year end. The Council has plans to mitigate annual spending increases through the Specialist and Alternative Provision Review and Education Commissioning Strategy, although eliminating the accumulated deficit will require additional government funding. The Council discussed its deficit management plan with the Department for Education in July 2020, and held an Inclusion Summit during the year to develop a strategy to ensure more children with special educational needs and disabilities can remain in mainstream schools.

The Council regularly reviews its financial plans. MTFP update reports were considered by Executive in September, October and December 2020, with assumptions updated as the budget process progressed. The February 2021 budget report also contained an MTFP update based on the balanced position for 2021/22.

We have found no evidence of significant weakness in the Council’s financial planning

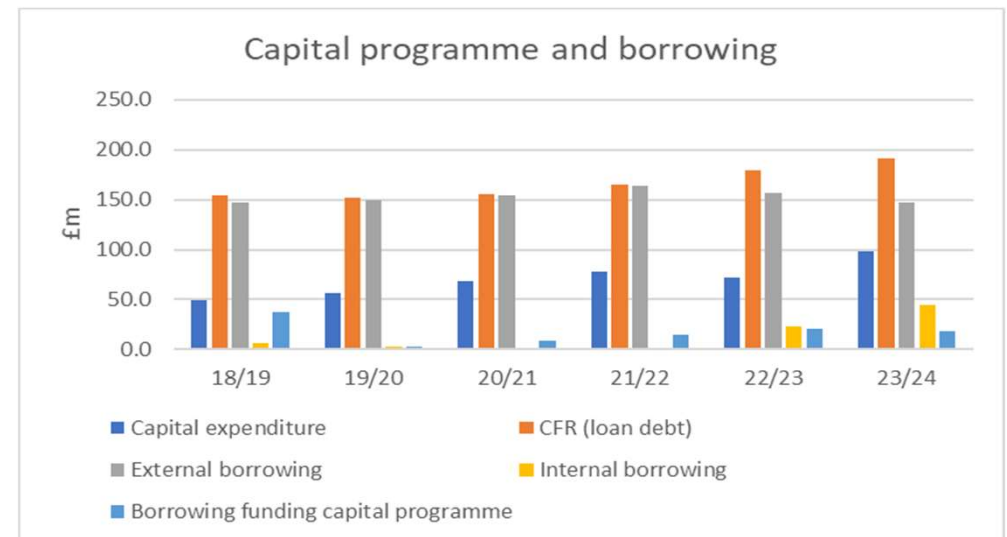
arrangements but have made improvement recommendations to further strengthen the MTFP by providing sensitivity analysis for key budget assumption and extending the period of financial planning.

Capital strategy and treasury management

The Council approves the Capital Programme, Capital Strategy and Treasury Management Strategy annually.

The Council approved a £354.9m Capital Programme in February 2021, with £78.0m profiled to be spent in 2021/22. The programme is primarily funded through £239.1m of grants, plus £95.6m of borrowing, and supports corporate priorities through investment in infrastructure, schools, the Sovereign Centre and decarbonisation schemes.

The graph below uses projections set out in the Treasury Management Strategy approved in February 2021 and previous capital outturn reports to illustrate trends in capital expenditure and funding.



The graph illustrates that as annual capital expenditure generally increases, so will the capital financing requirement (CFR) from 2021/22 as the Council funds increasing amounts of its programme through borrowing. The CFR is forecast to increase from £155.2m in 2020/21 to £191.6m in 2023/24. The projections in the Treasury Management Strategy are that levels of actual external debt will not necessarily follow the same trajectory as the CFR, as internal borrowing will be utilised in later years.

The revenue budget provides for increases to minimum revenue provision (MRP) payments as a result of the increasing CFR. The MRP Policy shows a £0.277m increase for 2021/22 which reflects capital expenditure funded from borrowing in 2020/21. Additional MRP payments of £0.278m are included within the Sovereign Centre budget reflecting anticipated capital spend of £5m in 2021/22.

The Council's Treasury Management Strategy sets out the approach to mitigating risk in relation to the investment, non-treasury investment and borrowing strategies. We note that the Treasury Strategy does not provide a breakdown of interest cost or investment income budgets for the year, referring only to the net capital financing cost and interest budget of £10.7m. While the Treasury Outturn report discloses investment income compared to budget, it does not contain outturn information for interest cost or MRP. While this information is available through the revenue outturn report and statement of accounts, it would be beneficial to Members and the public if all relevant information is included in key treasury management reports. We have made an improvement recommendation that these elements of treasury performance should be reported to Members both as part of the budget setting process and outturn reporting.

We have found no evidence of significant weakness in the Council's capital and treasury arrangements.

Commercial strategy

The Council has a Commercial Investment Strategy, approved in January 2019, with the objective of acquiring a portfolio of commercial property investments to generate income. Although £100m was originally allocated to the programme, only two assets have been acquired during 2017/18 and 2018/19 for a total of £61.2m. These purchases were financed through borrowing and a finance lease. The Council does not have any plans to utilise the remaining allocation. Both commercial assets are within the Council's administrative area and the Sovereign Centre provides particular economic generation and place making benefits for Weston town centre.

While North Worle is providing a net contribution to the General Fund of £0.65m as planned, the Sovereign Centre is not currently making a contribution due to vacant units and the impact of the pandemic. Executive approved a business case in February 2021 to convert vacant retail space in the Sovereign Centre into a new mixed use space, funded mainly through the Getting Building Fund. The capital programme includes £10m in future years to further develop the centre.

The Council's budgets are subject to increased risk through the Commercial Investment Strategy. The 2021/22 budget is dependent upon £3.6m of income from the commercial elements of these assets, and is committed to £2.5m of MRP payments and finance lease costs regardless of investment return.

The Council does have mitigation measures in place if income falls below budgeted levels. An annual allocation of £0.3m is made to reserves, funded from income generated by the Sovereign Centre. As at 31 March 2021 the commercial investment reserve had a balance of £1.1m.

New lending terms for accessing PWLB debt were introduced in November 2020. Councils wishing to access PWLB debt must confirm that they are not planning to purchase investment assets primarily for yield in their capital programme for the current and following two financial years. The Council's commercial investments are historic, and Treasury Management reports confirm that the Council is not planning to purchase any investment assets primarily for yield in the next three years and so can continue to access PWLB funding.

CIPFA consulted on revisions to the Prudential Code in the spring of 2021, and published a new Code in December 2021. This reinforces the objectives of the new PWLB lending terms, confirming that local authority's must not borrow to invest primarily for financial return. It is not prudent activity for councils to undertake investment that will increase their capital financing requirement unless it is directly and primarily related to the functions of the authority. The Council is compliant with this requirement of the Code as it has ceased additional commercial investment activity and made no purchases in 2020/21. It should also be noted that the Sovereign Centre is not an investment held primarily for yield as the Council holds this asset to help achieve the regeneration objectives for Weston town centre.

The revised Prudential Code confirms that local authorities with existing commercial investments are not required to sell these investments. However, councils with an expected need to borrow should review the options for exiting commercial investments through a financial risk appraisal and summarise this review in the annual Treasury and Investment strategies.

Due to the inherent risk relating to commercial property investments and their increased scrutiny by HM Treasury and CIPFA, we have raised an improvement recommendation that the Council should ensure:

it has adequate mitigation measures in place to manage the impact if investment performance is below the target;

It complies with the requirements of the revised Prudential Code by reviewing options for exiting commercial investments based on a financial risk appraisal and summarise this in the annual Treasury and Investment Strategies.

Reserves and risk mitigation

Section 25 of the Local Government Act 2003 requires the S151 Officer to report on the robustness of estimates within the budget and the adequacy of levels of reserves. As part of the 2021/22 budget this officer's recommended level of General Fund (GF) balance was confirmed as £9.053m which equates to 5.28% of the net revenue budget, and so is within the CIPFA benchmark of between 5% -10%. Due to the balanced outturn position for 2020/21 this level of GF balance was maintained at the year end. Due to the uncertainties affecting local authority budgets the Chief Financial Officer recommends that the level should be increased to nearer 6%.

As part of our work considering the arrangements for setting the 2021/22 budget we have made an improvement recommendation that the S25 Statement should include supporting information on how the recommended minimum prudent level of General Fund balance is calculated.

Earmarked revenue reserves increased from £65.7m on 1 April 2020 to £101.3m as at 31 March 2021. Significant contributions to reserves were made in relation to grant funding for future

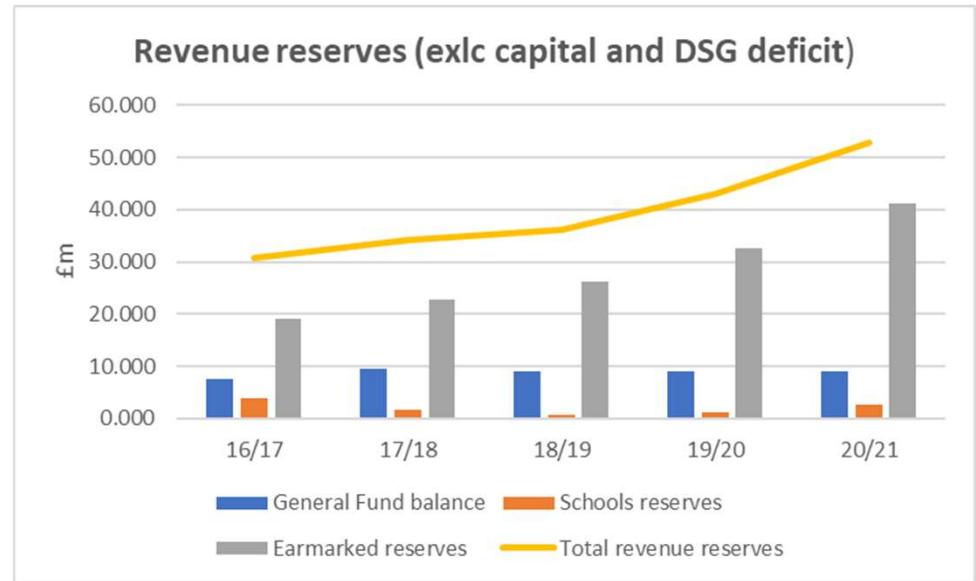
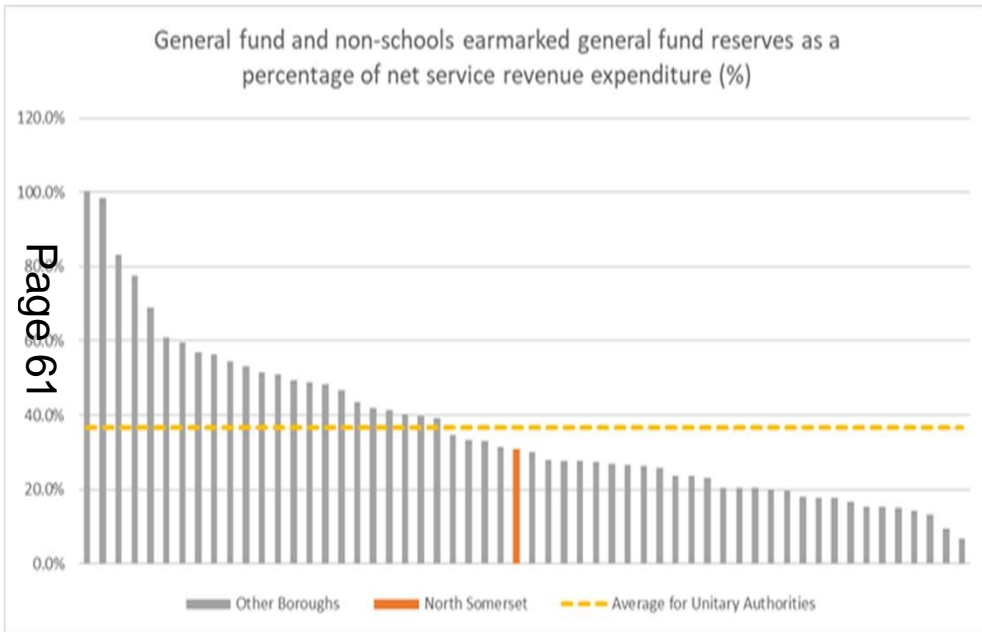
COVID-19 responses, contracts reserve, capital grants and the £17m S31 grant received to fund the deficit on the Collection Fund over the next three years.

Included within the revenue reserves as at 31 March 2021 are funds that can be used to mitigate financial risk within the Council's budgets. These include:

- unallocated GF balances £9.053m
- commercial investment reserve £1.067m
- COVID-19 emergency costs reserve £0.479m
- financial risk reserve £1.221m

Additional risk mitigation measures within the 2021/22 budget include the base budget contingency which was increased by £0.5m for a total of £1.3m. There is also a one off COVID-19 cost pressure provision of £4.9m funded by government grant. The Sales, Fees and Charges Compensation Grant was extended into quarter one of 2021/22 and so is available to help mitigate any further income losses.

The graph overleaf provides an analysis of the Council's reserve position in comparison to other unitary authorities. The Council is not an outlier in terms of the total revenue reserves it is holding, which represent of 31% of net service cost compared to an average of 36.7%. The data reflects the 2019/20 financial statements because 2020/21 data includes the S31 Collection Fund grants which makes comparisons difficult.



Balancing the 2021/22 budget was not dependent on the one-off use of reserves. There is no evidence that that the Council has eroded the level of revenue reserves at its disposal in recent years. The unallocated Gf balance has been maintained at £9.053m since 2018/19 and in total earmarked revenue reserves have increased year on year.

The graph opposite demonstrates this trend. In order to compare the position on a consistent basis, the data has been adjusted to remove the £17m S31 Collection Fund grant from 2020/21 balances and strip out the DSG deficit which is now accounted for as an unusable reserve. The graph does not include reserve earmarked for capital purposes.

We have not identified any risk of significant weaknesses with regard to the Council's strategy for reserves and the resources set aside to mitigate financial risk.

Improvement recommendations



Financial sustainability

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1 Recommendation	The S25 Statement should include supporting information on how the recommended minimum prudent level of General Fund balance is calculated.
Why/impact	The S25 Statement would be strengthened by referring to how the minimum prudent level of reserves is calculated with reference to the financial risks that it is mitigating. This would further aid understanding of the risks within the Council's budget and how they are mitigated.
Summary findings	The budget report is accompanied by the Chief Finance Officer's statement on the adequacy of reserves and robustness of budget assumptions in accordance with S25 of the Local Government Act 2003. This contains a detailed commentary on the risks and assumptions contained within the budget and the reserves strategy, which confirms a minimum level of unallocated general fund reserves of £9m. We note that there is a working paper that supports the determination of the minimum prudent level of reserves that is based on the finance risk register.
Management comment	The Council will expand the information contained within the S25 Statement to include details on how the General Fund Balance is calculated, including examples taken from the finance risk register. The next opportunity will be the MTFP report, due to be presented in February 2023.



The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations



Financial sustainability

2 Recommendation The Council should consider including a sensitivity analysis to demonstrate the range of impacts that future funding reforms could have, even if they are not formally modelled in the MTFP. Sensitivity analysis should also be considered for other key financial planning assumptions. We also recommend that the MTFP covers the current year plus five, in accordance with CIPFA best practice.

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Why/impact Financial planning would be strengthened by extending the period of the MTFP and by illustrating what the potential impact of funding reforms could be. Although longer term forecasts become inherently more difficult, a five year horizon would help identify years where significant budget gaps are forecast and allow a longer term consideration of mitigating strategies.

Summary findings The MTFP covers a period of three years. There is additional uncertainty with financial planning due to the recent annual financial settlements, the pushing back of the fair funding review, and delay in the reset of the business rate retention scheme. Due to the uncertainty surrounding the impact and timing of these reforms to local government funding, they are not reflected in the MTFP but are flagged as a significant risk. Modelling of demand pressures is undertaken during the budget process but sensitivity analysis for key assumptions is not included in the MTFP reporting. Examples could include the number of children in care or demand for home to school transport.

Management comment The Council will extend the MTFP reporting period, although will do so in a phased approach to reflect the current situation and range of information held at that point in time. Whilst we recognise the potential improvements in allowing a longer-term consideration of mitigating strategies, to be effective, they should be based on information and forecasts that are reliable, or within acceptable ranges of certainty.



The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations



Financial sustainability

3 Recommendation Treasury Strategy and Treasury Outturn reports should include detailed breakdowns of the budgets relating to interest costs, investment income and MRP, including performance against the budget at the year end.

Why/impact Separately identifying and reporting these elements will allow for greater challenge and accountability on the delivery of Treasury Management activities and provide an increased understanding of the impact of the Council's borrowing and investment activities on the budget.

Summary findings The Treasury Strategy does not provide a breakdown of interest cost or investment income budgets for the year, referring only to the net capital financing cost and interest budget of £10.7m. While the Treasury Outturn report discloses investment income compared to budget, it does not contain outturn information for interest cost or MRP.

While this information is available through the revenue outturn report and statement of accounts, it would be beneficial to Members and the public if all relevant information is included in key treasury management reports.

Management comment The Council will update its external reporting of treasury management matters to include the budgeted impacts of MRP, interest payable on borrowing and interest receivable on investments within future reports to enable all components to be seen together.



The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations



Financial sustainability

4 Recommendation The Council should ensure it has sufficient risk mitigation strategies in place for commercial property and ensure compliance with the requirements of the revised Prudential Code.

Why/impact

Due to the inherent risk relating to commercial property investments and their increased scrutiny by HM Treasury and CIPFA, the Council should ensure:

- it has adequate mitigation measures in place to manage the impact if investment performance is below the target;
- comply with the requirements of the revised Prudential Code by reviewing options for exiting commercial investments based on a financial risk appraisal and summarise this in the annual treasury and Investment Strategies.

Summary findings

The Council has purchased two assets through its Commercial Investment Strategy during 2017/18 and 2018/19 for a total of £61.2m. These were financed through borrowing and finance leases. The Council is exposed to risk within the revenue budget due to the forecast £3.6m commercial property income and commitment to pay MRP and finance lease costs of £2.5m regardless of investment return. The Council has no current plans to purchase further commercial property investments. The Council also has risk mitigation measures in place through annual contributions to the commercial investment reserve.

Commercial investments primarily for yield have been under increasing scrutiny from HM Treasury and CIPFA, and are not regarded as prudent activity for councils to undertake, as demonstrated by the new PWLB lending criteria and the revised Prudential Code.

Management comment

As noted in the findings, the Council has financial risk mitigation measures in place for the existing commercial investments and has no plans to increase activity in this area.

The Council currently includes a range of financial information within its annual Investment reports although this could be enhanced to provide additional narrative to explain how we actively monitor and influence the performance of these assets through the adoption of revised plans or operational arrangements, and potentially also advise on options for exiting if relevant or appropriate at that time.



The range of recommendations that external auditors can make is explained in Appendix C.

Governance



We considered how the Council:

- considered the impact of COVID-19 on the governance arrangements
- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effectiveness processes and systems are in place to ensure budgetary control
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards.

COVID-19 arrangements

During the 2020/21 financial year, the Council was required to adapt its arrangements to respond to the new risks it was facing in respect of COVID-19. The Council prepared a 'response, recovery and renewal' document to be updated in light of the views of residents, businesses and stakeholders and the unfolding pandemic. This was a concise statement of the Council's response to the pandemic. The Council's corporate plan was finalised prior to the pandemic and the Council therefore set out updates to this to take into account the changes required due to the impact of the pandemic. The update to the corporate plan was developed alongside a refresh to the Medium Term Financial Plan to ensure that strategic and financial planning were aligned. A COVID-19 risk register was set up to identify and manage the additional risks to the Council, which included high risk areas such as safeguarding, contract management and finance.

The Council introduced additional monitoring and controlling of additional costs due to the COVID pressures and was allocated more than £85 million across several grant schemes with monies to be distributed to local businesses. The Council's Internal Audit service supported the Council to provide assurance that the funding was being administered appropriately and to ensure controls were in place to minimise fraud and error.

We obtained sufficient evidence that the Council were taking appropriate actions in 2020/21 to address the risks and challenges presented by the COVID-19 pandemic.

Managing risk and Internal Control

The Council's risk management strategy describes its approach to the management of risk and this was revised and updated during the year. The effectiveness of the arrangements is effectively overseen by the Corporate Leadership Team (CLT) through the decision making process, supported by the Audit Committee overseeing the framework.

The Council's risk register scores risks based on the inherent likelihood, inherent impact to give an inherent risk and the residual likelihood and residual impact to give a residual risk. Each risk has a CLT lead and Lead officer as well as mitigating actions against the risk. We observed that risks within the register are not linked to a corporate priority and would recommend this is included going forward, to ensure only those risks which impact on corporate priorities are included within the register. Risk registers and risk management updates are reported to the Audit Committee however we recommend this is done on a more regular quarterly basis.

The Council's risk management strategy clearly sets out the arrangements in place for identifying strategic risks, understanding them and recording them. A specific COVID risk register has been developed to track and manage the key risks associated with the COVID-19 pandemic.

There is a good internal audit function operating at the Council, provided by Audit West and during 2020/21 where there were additional challenges as a result of COVID-19 and changing Council priorities. Audit West was able to provide direct assistance to the Council in regard to new risks relating to COVID-19 as well as maintaining planned "business as usual" internal audit work. Overall, the Internal Audit annual report for 2020/21 reports that at the end of the financial year 80% of audits were completed, reflecting the impact and disruption of COVID-19 including the level of unplanned work that was required. The initial audit plan was prepared pre COVID-19 and Internal Audit has therefore had to work closely with senior management to determine the key issues and risks to focus on during the 2020/21 year.

A "Reasonable Assurance" opinion was given by the Head of Audit and Assurance, based on the planned work completed due to the circumstances of COVID-19, the Council's internal control framework and systems to manage risk.

Overall, we found no evidence of significant weaknesses in the Council's arrangements to manage risk and operate effective internal controls. We have raised an improvement recommendation that the corporate risk register should be reported more regularly to the Audit Committee for review and that risks within the register should be linked explicitly to corporate priorities.

Monitoring Standards

There is evidence of an appropriate "tone from the top" being set in respect of decision making and ethical behaviour from senior officers and members. Codes of conduct are in place for both members and officers.

The Council has a range of officers who are responsible for ensuring and monitoring compliance with statutory standards, such as the Monitoring Officer and the Section 151 Officer. During our review we found no evidence of any instances where officers or elected members have not complied with the necessary standards.

A range of policies and standards are in place to ensure compliance, such as codes of conduct, gifts and hospitality and whistle-blowing policies. Officers and members are required to annually declare any interests that they might have and any gifts and hospitality received during the year. These policies are regularly reviewed and updated, and we did not identify any instances where these had not been subject to frequent review.

Budgetary control 2020/21

We have considered the Council's processes for monitoring the 2020/21 budget during what was a difficult year to accurately forecast costs and income due to the effects of the pandemic, periods of lockdown and incremental announcements of government funding.

Budget monitoring reports are submitted regularly throughout the year to the Executive Committee with reports providing a summary of the Council's financial performance including details surrounding the issues, impacts and future pressures and risks affecting the Council. Where necessary, these also outline steps being taken to address potential short-falls in order to deliver balanced budgets for the financial year. A financial summary is prepared by each director, which is included as an appendix to the Budget report. This report provide more detail of significant variances and the COVID and non-COVID impacts for each directorate.

The financial impact of COVID-19 was monitored throughout the year and updates on COVID-related pressures and COVID-19 funding were reported within the monthly Budget reports.

The budget monitoring process throughout the year incorporated the COVID-19 related risks to ensure all impacts were quantified and this meant the financial information was appropriate to be used to support and enable strategic decisions, which was particularly important with a difficult financial and operational landscape due to COVID-19.

Budget reports also include detailed schedules in relation to all projects within the capital programme, including the budget for the current year, total budget over life of project, how much expenditure is incurred to date and how the schemes are being funded. Where there is a significant difference between the in year estimated spend as part of the approved budget and the to date monitoring, we recommend a brief comment is included within the monitoring schedule to explain the reason for this. This would then allow by members to understand at high level the reasons for the differences and allow them to raise any further questions on these schemes.

The Council's outturn position reflects the strong budgetary controls which were implemented during the 20/21 financial year and did not require any transfers from the Council's general fund working balance or the Council's risk reserve.

Overall, we found no evidence of significant weaknesses in the Council's arrangements relating to budgetary control. We have raised one recommendation regarding the reporting of the capital programme and any significant differences between the in year estimated spend and the monthly monitoring to date.

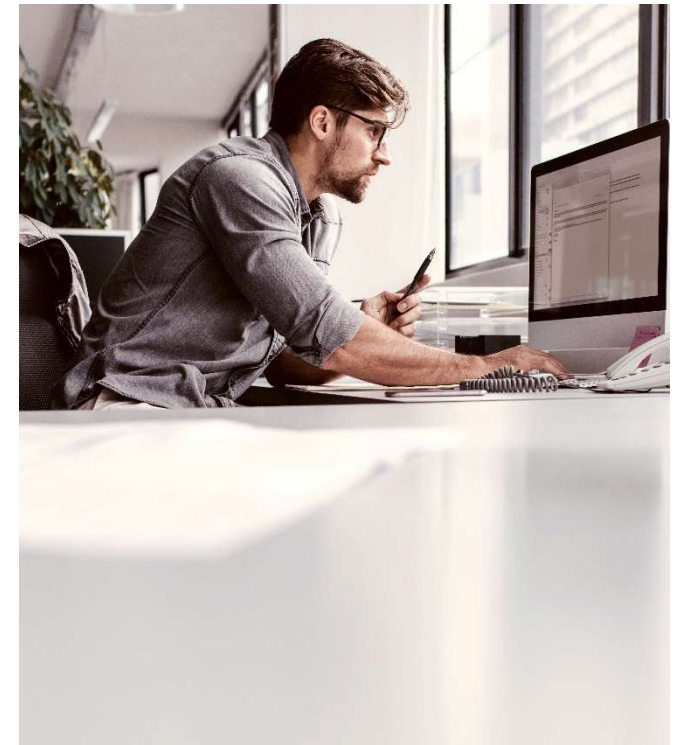


Improvement recommendations

Governance

5 Recommendation	The Corporate Risk Register should be reported to the Audit Committee on a more regular basis and risks should be mapped explicitly to corporate objectives.
Why/impact	The frequency of reporting should be increased to quarterly to provide more timely management information to Members. Mapping risks to corporate objectives would ensure that only key business risks are included in the register.
Summary findings	In 2020/21, only the quarter 3 corporate risk register was taken to the Audit Committee. Although we noted that the Covid risk register for quarter 1 and quarter 3 were also taken to the Committees.
Management comment	The Council recognises the importance of reporting risk related matters and so does publish information online as an open item. However, the Council also accepts that review and discussion of Risk Registers at formal meetings is helpful and so has recently introduced quarterly reporting to the Audit Committee, where meetings allow. Further work is currently being carried out to map risks to corporate objectives and this will be available by the Autumn.

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The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations

Governance

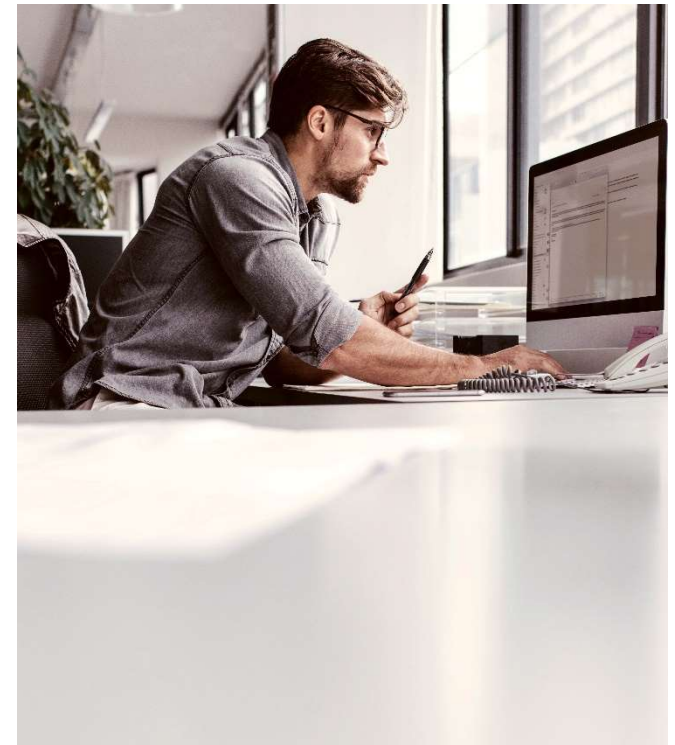
6 Recommendation Where there is a significant difference between the in year estimated capital spend at a scheme level as part of the approved budget and the to date monitoring, we recommend a brief comment is included within the monitoring schedule to explain the reason for this.

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Why/impact This would then allow by members to understand at high level the reasons for the differences and give them further information to then raise any further challenge questions on this.

Summary findings Capital monitoring reports reported to members as part of the budget monitoring appendices do not include details for any significant differences between estimated spend and actual spend.

Management comment This aspect of the Council's capital monitoring is currently being reviewed by the Capital Programme, Planning and Delivery Board and future monitoring reports will include additional information to explain significant differences in levels of spending, compared to the budgeted position.



The range of recommendations that external auditors can make is explained in Appendix C.

Improving economy, efficiency and effectiveness



We considered how the Council:

- responded to the changes required as a result of COVID-19
- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve
- ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.

Performance management

The Corporate Plan is the Council's key overarching strategic document setting out what the Council aims to achieve for local people and the area over the medium term. A new Corporate Plan was adopted by Full Council on 20 February 2020.

As noted in the Governance section in June 2020 the Executive agreed its COVID-19 'response, recovery and recovery plan' as part of that process agreed changes to its Corporate plan. The Corporate plan 2020-2024 was updated again in August 2020.

The Council has an agreed Corporate Performance Framework (CPF) which sets out how performance is monitored and evaluated. This includes a number of measures and includes:

- Key Council Performance Indicators (KCPIs)
- Key Service Measures (KSMs)
- Organisational Health Measures (OHMs)
- Key Projects (KPs)
- Key Service Projects (KSPs)

The CPF and the Annual Governance Statement set out that performance measures should have quarterly targets and that the corporate plan is monitored quarterly.

Reporting was undertaken across a range of different levels, services, directorate leadership teams (DLT), corporate leadership teams (CLT), scrutiny and Executive. We found that individual scrutiny committees received the relevant extract of performance measures, but did not receive this information on a quarterly basis. Frequency of meetings did not enable this.

We understand that the Executive received performance reports on a quarterly basis via email after close of the quarter along with an yearend performance report. CLT and DLTs also received similar reports but in dashboard format.

We consider that adequate arrangements are in place to monitor performance but that additional improvements are made and we recommend that performance by the Executive is reviewed in a public meeting to facilitate openness and transparency and to enable public scrutiny.

Data Quality

The Council obtains its performance information from a range of sources and gains assurance over the accuracy of data in its performance reports through reliance on the expertise and knowledge of officers. Information is collated into a basket of performance indicators which are reviewed quarterly by a senior analyst and challenged as required.

A similar approach is taken for finance information where the Council again relies upon the knowledge and expertise of its staff to compile and challenge data. The Council also relies upon managers within the Directorates to be engaged and to manage their resources and through the web-based version of Agresso are supported by finance staff to accurately forecast spending throughout the year.

The Council does not have a data quality policy. Such a policy should set out an agreed approach to ensuring the reliability and consistency of data quality across the Council. It should also set out who is responsible for ensuring quality and accuracy of data used throughout the Council. We are aware that the Council is developing a data strategy in 2021/22 with the intention that it will include data quality elements.

Children's Services

In the last five years the Council has a number of inspections. The table below illustrates that although some progress may have been made the overall effect is that significant improvements are still required.

Date	Inspectorate	Finding
August 2017	Ofsted – Children's services inspection	Requires improvement to be good
June 2018	Ofsted and Care Quality Inspection – Joint local area SEND inspection	Written Statement of Action is required because of significant areas of weakness in the local area's practice
May 2019	Ofsted - focused visit following on from the 2017 visit	Not all areas identified for improvement in 2017 had been fully addressed
March 2020	Ofsted – children's social care	The service still requires improvement to be good
June 2021	Ofsted and Care Quality Inspection – Joint local area SEND revisit	Sufficient progress was made in addressing two of eight significant weaknesses identified in 2018. Six significant weaknesses insufficient progress has been made.
December 2021	Ofsted - focused visit following on from the March 2020 visit	There has been little progress in the quality of social work practice to improve the experiences for children in need of help and protection since the last inspection

The Children's services developed an improvement plan following the inspection in 2017 which has been updated in 2020. The actions from the plan are contained within the Children's Support and Safeguarding Plan. Progress is monitored by the Children's Services Leadership Team every two months and monthly by the Children & Young People's Partnership Board. However, during 2020/21 and 2021/22 the improvement plan has not been reviewed and discussed by members in a public meeting. Whilst we consider that adequate arrangements are in place arrangements to monitor performance the arrangements could be strengthened by ensuring progress against Children's Services Improvement Plan is reviewed and evaluated in a public committee meeting.

Significant partnerships

The Council's corporate plan includes the importance of partners within its principles and identifies where partners contribute to the Council's objectives. The actions do name some of the specific partners such as the Local Enterprise partnership and the West of England Combined Authority, but did not always directly name the relevant partnership. And the Corporate Plan includes the priority '*Partnerships which enhance skills, learning and employment opportunities. And Collaborate with partners to deliver the best outcomes*'.

The governance relating to the partnerships in which the Council is involved varies and depends on the nature of the partnership and the involvement of members and therefore the information they receive will differ. These arrangements are not dissimilar to other local councils, but what we have found is that a number of councils are defining their significant partnerships and developing partnership registers where the importance of partnerships and the contribution that individual partnerships make to the council's corporate objectives can be evaluated and documented. The Council has not defined its significant partnership and does not have a register of its significant partnerships, although the Council has begun this process by listing its main partners within its 2020/21 Annual Governance Statement.

We have not identified any significant weaknesses in the Council's partnership arrangements we consider that the Council would benefit from defining its significant partnerships and developing a register that identifies the contribution that the partnerships makes to the Council's corporate objectives.

Procurement

The Council has a procurement strategy which is available on the Council's website. The Strategy is the responsibility of the Strategic Procurement Group and is responsible for reviewing the strategy and progress against the targets. The procurement and contract procures rules are contained within the Council's constitution.

We are aware that the Council has taken action to address under performance by third parties. The set up of North Somerset Environment Services Limited is an example where measures were taken to address under performance of the Council's existing waste service.

The Council has outsourced a large proportion of its support services to Liberata and Agilisys, who have contracted with the Council's since 2010. They provide much of the Council's support services such as ICT, and the revenue and benefits service. Performance is monitored through KPIs and the Council has a defined set of KPIs for each year of the contract. Performance is reported monthly and an annual dashboard is produced. Detailed monthly performance meetings are held for each of the services by the relevant service lead.

North Somerset Environment Services Company Limited (NSEC)

September 2020 Full Council made the decision to reach a negotiated termination of its outsourced waste collection and recycling services and deliver these services through a local authority trading company. In October 2020 NSEC was established and began trading at the end of March 2021.

This decision was made based on the performance of the existing contractor and following an options appraisal, which considered five different options: continuation of existing arrangements, bringing services in-house, setting up a local authority owned trading company (with the Council as the sole share holder) or a joint venture with an established local authority waste trading company.

This decision delegated authority to the Director of Development and Environment, in consultation with the Council's statutory officers to set up an appropriate company structure to include council governance processes. Whilst NSEC was only operation for nine days in 2020/21 we found, that the governance and performance management arrangements are unclear and have not been communicated to members in a public meeting.

Our experience indicates that it is a fine balance between commercial freedoms and appropriate council governance and performance management. Local authority trading companies can remove unnecessary public sector bureaucracy in a private sector setting but need to ensure the Council maintains control to ensure sufficient, robust, timely information is reported to provide the necessary assurance to the Council and to comply with the 'Teckal' requirements. Effective governance arrangements will reduce and limit the risk and financial exposure to which the Council is exposed.

The following governance examples are available to the Council:

- procurement controls, over the contract or service level agreement in place
- shareholder committee or boards – these are usually established as subcommittees of the Council and report to the Executive or Full Council
- group reporting arrangements – regular reporting on performance and financial information directly to the Executive or Full Council.

We note that the Council has also appointed the Director of People and Communities as a Director of NSEC. The Council should ensure that its directors who are also employees of the council are aware of potential conflicts and are advised and able to effectively minimise any potential conflict of interest.

We have identified the following improvement recommendation: The Council should ensure it has effective governance arrangements in place in relation to NSEC to:

- actively and routinely monitor the service and financial performance, so that NSEC is held to account and under performance is addressed
- minimise the scope for conflicts of interest regarding the roles held by Council Officers on the NSEC Board to.

Teckal – refers to an exemption from the rules of Government procurement, whereby a public authority may award a contract to a separate entity, without public procurement. Provided these two requirements are met: the council awarding the contract must exercise control over the separate entity (the trading company) to a similar extent to which it exercises over its own departments and at least 80% of the total turnover of the Teckal company must be for its public sector owners.

Benchmarking

Benchmarking is an effective tool that enables an organisation to compare and analyse its performance with others. It can identify areas for improvement and also provide targets to work towards.

Benchmarking was undertaken as part of our VfM work. We used our management tool 'CFO Insights' and compared the units costs for a range of services. This identified two areas where the unit costs were very high in comparison to other unitary councils:

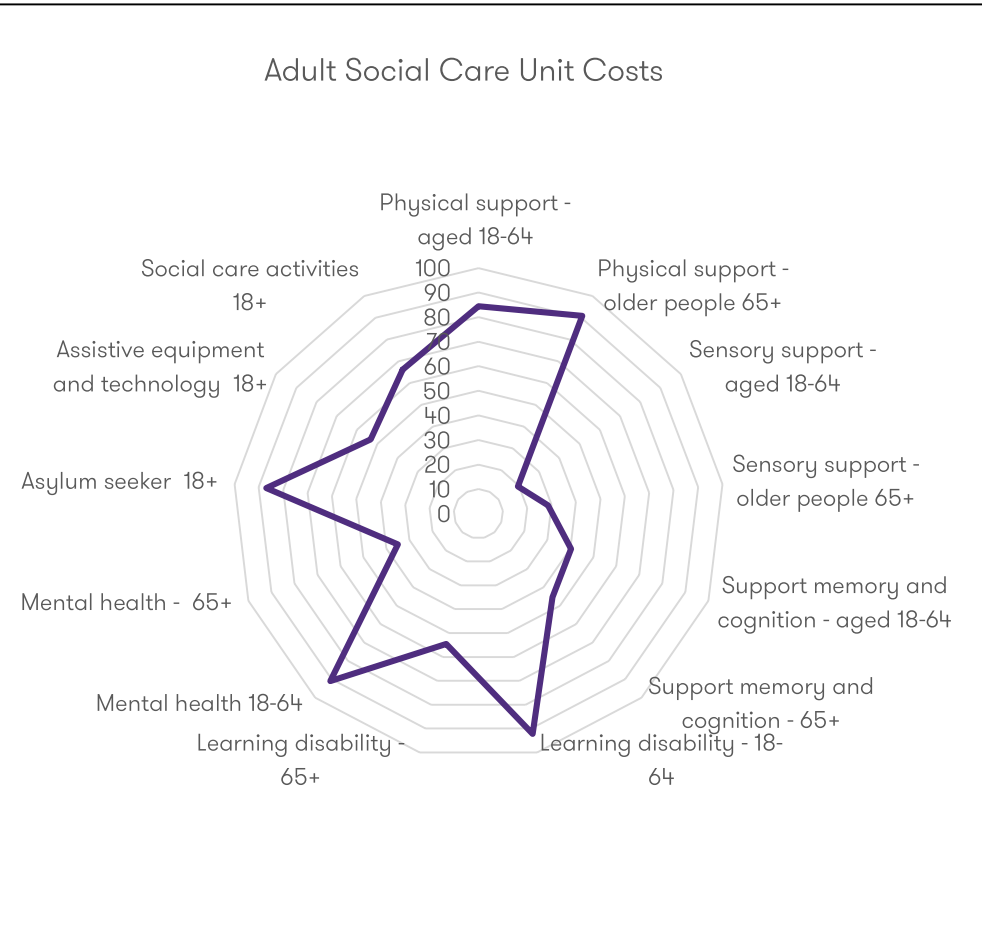
- Adult Social Care, illustrated opposite with high cost areas being:
 - Learning disability (18-64 year olds)
 - Mental Health support (18-64 year olds)
 - Physical support (18-64 year olds)
 - Physical support (over 65s)
 - Asylum seekers (over 18).
- Planning and development, as a result of high unit costs for economic research.

The Council is aware of the high costs areas within Adult Social Care and annually looks at the use of resources benchmarking provided by the Local Government Association. Based on this information the Council is aware that the cause of these high costs is as a result of higher than average spend per client in long term care. The Council has been working to reduce the number of people aged 18-64 placed in residential care to reduce these costs.

The high costs within planning and development economic research have been attributed to discretionary COVID-19 business grants in this category which has expenditure of £6.1m in 2020/21. If this assumption is correct then the unit costs should reduce in 2021/22.

On the spider chart a rank of 50 represents the group median. The group in this case is all unitary and county councils. If a measure is closer to the outside of the chart it would be classed as 'very high cost', whereas if the line is closer to zero, then it would be classed as 'very low cost' in comparison to the group.

The data is based on the 2019/20 Revenue Outturn submissions to the government.



Improvement recommendations



Improving economy, efficiency and effectiveness

7 Recommendation The Council's Executive should review performance against the corporate plan in public meetings and performance should be reviewed quarterly by the scrutiny committees in line with the Council's corporate performance framework.

Why/impact Public meetings enable public scrutiny and demonstrate that the Council is open and transparent about its performance.

Summary findings The Council has an agreed Corporate Performance Framework (CPF) which sets out how performance is monitored and evaluated. The CPF and the Annual Governance Statement set out that performance measures should have quarterly targets and that the corporate plan is monitored quarterly.

Reporting was undertaken across a range of different levels, services, directorate leadership teams (DLT), corporate leadership teams (CLT), scrutiny and Executive. We found that individual scrutiny committees received the relevant extract of performance measures, but did not receive this information on a quarterly basis. Frequency of meetings did not enable this.

The Executive received performance reports on a quarterly basis via email after close of the quarter along with an end year performance. CLT and DLTs also received similar reports but in dashboard format.

Management comment As noted in the findings, the Council already has extensive reporting arrangements in place to ensure that performance outcomes are shared with senior officers as well as the Executive and Scrutiny Panels, although recognise that in some cases the timing of meetings does not always allow for quarterly external reporting to be shared within the public domain. The Council will review its reporting timetable to ensure that performance management information is shared with the Executive at public meetings where possible.



The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations



Improving economy, efficiency and effectiveness

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8 Recommendation	<p>The Council should ensure it has effective governance arrangements in place in relation to North Somerset Environmental Services Limited (NSEC) to:</p> <ul style="list-style-type: none"> actively and routinely monitor the service and financial performance, so that NSEC is held to account and under performance is addressed minimise the scope for conflicts of interest regarding the roles held by Council Officers on the NSEC Board.
Why/impact	<p>Effective governance arrangements will reduce and limit the risk and financial exposure to which the Council is exposed.</p>
Summary findings	<p>In September 2020 Full Council agreed to terminate its existing waste contracting arrangements and established North Somerset Environment Services Limited, a local authority trading controlled company which began trading at the end of March 2021.</p> <p>This decision delegated authority to the Director of Development and Environment, in consultation with the Council's statutory officers to set up an appropriate company structure to include council governance processes. The governance and performance management arrangements are unclear and have not been communicated to members in a public meeting.</p>
Management comment	<p>There is a close working relationship between NSEC and the NSC client (waste services) with a contract signed and in place and reviewed annually for contract price. A formal contract variation process is in place to monitor and document changes to the contract.</p> <p>The Council has nominated the Executive Member for Corporate Services as its Shareholder representative. The company is overseen by the shareholder via a shareholder board which meets regularly (at least quarterly) and which reviews the company performance of NSEC via a Memorandum of Understanding and the Company Articles, as well as the headlines of service performance. The articles clearly reserve matters for the shareholder including the development of formal agreements and documentation. Officers are currently reflecting on current governance arrangements and whether these could be strengthened.</p>



Improvement recommendations



Improving economy, efficiency and effectiveness

Management comment (cont)

Council officers initially held positions on the NSEC Board while the company was implemented and while a recruitment process for an independent chair of the board and 2 non-executive directors was undertaken. From August/September the NSEC board will comprise 2 company directors, an independent chair, and 2 NEDs with no council officers on the board. This prevents conflicts of interest with officers who have two roles related to the company.



The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations



Improving economy, efficiency and effectiveness

9 Recommendation The Council should review and evaluate progress against its Children’s Services Improvement Plan in a public committee meeting.
Why/impact Review in a formal committee meeting will provide public scrutiny and should ensure effective action to improve performance is taken.
Summary findings Following the Ofsted inspections in 2020 and joint local area SEND significant improvements are still required to achieve a ‘good’ rating and before all the objectives on its Written Statement of Action are achieved. Progress was monitored internally, but was not reviewed at any formal committee meeting.
Management comment The newly published ILACS report following the March inspection was presented to CYPS Scrutiny Committee in June 2020. The subsequent Improvement Plan was scrutinised by CYPS Scrutiny Committee at its meetings in Oct 2020, Oct 2021 and Mar 2022.. A Focus Group of elected members had a series of meetings with officers to track progress and ths concluded with the setting up of Member Task & Finish Groups, each focusing on an area of improvement. The Improvement Plan arising from the Ofsted/CQC SEND Inspections continues to be monitored by CYPS Scrutiny Committee at its meetings (Oct 2018, Jan 2019, Oct 2019, June 2020, Mar 2021, June 2021, Oct 2021) and members continue to scrutinise and triangulate via a Task and Finish Group focused on aspects of the Improvement Plan. A combined report covering progress against the recommendations of the ILACS (2020), the SEND inspections (May 2018 & May 2021), the YOS inspection (Sept 2020) and the Ofsted Focused Visit (Dec 2021) will be presented to CYPS Scrutiny in October 2022.

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The range of recommendations that external auditors can make is explained in Appendix D.

Improvement recommendations



Improving economy, efficiency and effectiveness

10 Recommendation The Council should adopt a data quality policy.

Why/impact

A data quality policy would set out the Council's approach to continually improving the quality of data required to support good decision making.

A data quality policy should include:

- definition of data quality and why it is important
- roles and responsibilities, including members, senior officers and individual employees
- data quality objectives
- monitoring arrangements
- arrangements for data sharing.

Summary findings The Council does not have a data quality policy.

Management comment

The Council has recently drafted a Data and Insight Strategy which has been adopted by ICTAB in the first instance and includes an action to develop and implement council-wide data quality standards.



The range of recommendations that external auditors can make is explained in Appendix D.

Improvement recommendations



Improving economy, efficiency and effectiveness

11 Recommendation	The Council should define its significant partnerships and develop a register that identifies the contribution that the partnerships makes to the Council's corporate objectives.
Why/impact	Defining its significant partnerships and better understanding their contribution to the Council's objectives will enable the Council to evaluate and assess their level of contribution.
Summary findings	<p>The Council has not defined its significant partnership and does not have a register of its significant partnerships.</p> <p>The main partners are included within the Council's 2020/21 Annual Governance Statement and would provide the starting point for the development of a partnership register.</p>
Management comment	The Council recognises the importance that partnerships play in delivering contributions that allow corporate objectives to be achieved and as such makes efforts to describe these within the Annual Governance Statement, as well as throughout the Council's website. That being said, the development of partnership register would provide a single source of information and would be beneficial to interested parties. The Council will add this recommendation into the work plan for the Partnership team so that they can consider and discuss how a register could be implemented in the future.

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The range of recommendations that external auditors can make is explained in Appendix D.

Opinion on the financial statements



Audit opinion on the financial statements

We gave an unqualified opinion on the Council's financial statements on 15 October 2021.

Audit Findings Report

More detailed findings can be found in our Audit Findings Report, which was published and reported to the Council's Governance Committee on 20 September 2021.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

These instructions have yet to be issued and as such we cannot complete this work or formally certify the closure of our audit.

Preparation of the accounts

The Council provided draft accounts in line with the national deadline and provided a good set of working papers to support it.

Issues arising from the accounts:

- Our work did not identify any material errors or adjustments to the financial statements
- We recommended a small number of adjustments to improve the presentation of the financial statements
- We made a small number of recommendations for improvements which the Council accepted to take forward.
- **Grant Thornton provides an independent opinion on whether the accounts are:**
 - True and fair
 - Prepared in accordance with relevant accounting standards
 - Prepared in accordance with relevant UK legislation.



Appendices

Appendix A - Responsibilities of the Council



Role of the Chief Financial Officer:

- Preparation of the statement of accounts
- Assessing the Council's ability to continue to operate as a going concern

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

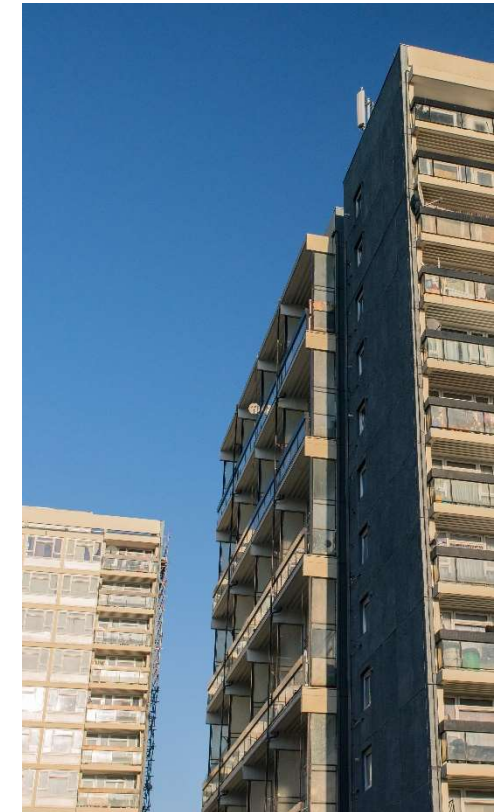
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) or equivalent is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

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



Appendix B - Risks of significant weaknesses - our procedures and findings

As part of our planning and assessment work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we identified are detailed in the table below, along with the further procedures we performed, our findings and the final outcome of our work:

Risk of significant weakness	Procedures undertaken	Findings	Outcome
Page 84 Financial sustainability was identified at the planning stage of the value for money audit as a potential significant weakness, see pages 6 to 15 for more details.	No additional procedures undertaken	No significant weaknesses identified	Appropriate arrangements in place, four improvement recommendations raised.
Governance was not identified as a potential significant weakness, see pages 16 to 20 for more details.	No additional procedures undertaken	No significant weaknesses identified	Appropriate arrangements in place, two improvement recommendations raised.
Improving economy, efficiency and effectiveness was not identified as a potential significant weakness, see pages 21 to 29 for more details	No additional procedures undertaken	No significant weaknesses identified	Appropriate arrangements in place, five improvement recommendations raised.

Appendix C - An explanatory note on recommendations

A range of different recommendations can be raised by the Council's auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Council to discuss and respond publicly to the report.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	No	N/A
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.	Yes	Pages 12 – 15 Pages 19 – 20 Pages 25 - 29

Appendix D – Use of formal auditor’s powers

We bring the following matters to your attention:

Statutory recommendations

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly

We have not issued any statutory recommendations.

Public interest report

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.

We have not issued a public interest report.

Application to the Court

Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.

We have not made an application to the Courts.

Advisory notice

Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:

- is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure,
- is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or
- is about to enter an item of account, the entry of which is unlawful.

We have not issued any advisory notices.

Judicial review

Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.

We have not applied for a judicial review.

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The Audit Findings for North Somerset Council

Year ended 31 March 2022

September 2022

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Contents



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Section

1. Headlines
2. Financial statements
3. Value for money arrangements
4. Independence and ethics

Appendices

- A. Action plan
- B. Follow up of prior year recommendations
- C. Audit adjustments
- D. Fees
- E. Audit letter in respect of delayed VFM work

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

**Name : Barrie Morris
For Grant Thornton UK LLP
Date : 13 September 2022**

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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1. Headlines

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

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Financial Statements

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

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

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed remotely during June-September 2022. Our findings are summarised on pages 5 to 20. In our work to date we have not identified any adjustments to the financial statements. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our work is ongoing and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the following outstanding matters:

- Sample testing of debtors, journals, payroll transactions, grants, fees and charges and cut off. This is a mix of part received samples and awaiting information from management
- Review of employee remuneration disclosures
- Finalising of our Other Land & Buildings testing including review of assumptions used by the valuer and confirmation of school's valuations
- Finalisation of our testing of pension liabilities including receipt of the pension fund auditor assurance response
- Group audit work to review and assess work undertaken by the component auditor
- Final review of audit file by the key audit partner
- Receipt of management representation letters; and
- Review of the final set of financial statements

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unmodified.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix G to this report. We expect to issue our Auditor's Annual Report by December 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified a risk in respect of financial sustainability. Our work on this risk is underway and an update is set out in the value for money arrangements section of this report.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory power or duties

We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion

Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

2. Financial Statements

Overview of the scope of our audit

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

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

Audit approach

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

- An evaluation of the group's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that an audit of North Somerset Environment Company was required, which was completed by Thomas Westcott.
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion. These outstanding items include have been identified on page 3 of this report.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. As highlighted on page 18 of our audit plan presented to the Audit Committee in April 2021, the impact of the pandemic has meant that both your finance team and our audit team faced audit challenges again this year, such as remote accessing financial systems, video calling, physical verification of assets, verifying the completeness and accuracy of information provided remotely produced by the entity.

2. Financial Statements



Our approach to materiality

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

We have revised the performance materiality from the Audit Plan on receipt of the first year group accounts.

We detail in the table below our determination of materiality for North Council and group.

Group Amount (£) Council Amount (£) Qualitative factors considered

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	£7.85m	£7.75m	
Performance materiality	£5.9m	£5.8m	Our performance materiality has been set at 75% of our overall materiality
Trivial matters	£390k	£380k	This is set at 5% of financial statements materiality and reflects a level below which stakeholders are unlikely to be concerned by uncertainties
Materiality for senior officer remuneration	-	£20k	This is a politically sensitive figure of interest to the users of the accounts.



2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan

Commentary

Management override of controls

Under IAS (UK) 240, there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of controls, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatements.

We have:

- evaluated the design effectiveness of management controls over journals
- analysed the journals listing and determined the criteria for selecting high risk unusual journals through our data analysis software Inflo
- gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness

Work to be completed

- We have reviewed manual journals within inflo to identify those deemed to be high risk being selected for testing. We have selected and shared the sample of journals with the Council for them to provide us with evidence to support the entries and will complete our testing upon receipt of the supporting documentation

Our testing of journals followed the approach adopted in the previous year. During the year the Council posted 119,796 journals with a total value of £13.7bn. The number of journal users was 62.

Within the journal population we identified one entry that had been posted by an officer that was no longer employed by the Council. Further investigation identified that this was an automated interface with a named officer for the purpose of administration. Whilst this has no impact on the financial statements it is still considered best practice that all system information is updated to reflect officers no longer employed by the Council. We have raised a recommendation in relation to this finding. We have also noted that the control recommendation raised in prior year in respect of journals has not been implemented and remains a recommendation this year.

Our testing of journal entries made in year is currently ongoing.



2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Income from Fees, Charges and other service income (ISA240 revenue risk)

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

For North Somerset Council, we have concluded that the greatest risk of material misstatement relates to 'Fees, Charges and other service income'. We have therefore identified occurrence and existence of 'Fees, Charges and other service income' as a significant risk.

Having considered the risk factors set out in ISA240 and the nature of the other revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition for these can be rebutted, because:

- there is little incentive to manipulate revenue recognition
- opportunities to manipulate revenue recognition are very limited
- the culture and ethical frameworks of local authorities, including Sedgemoor District Council, mean that all forms of fraud are seen as unacceptable.
- The majority of income in subsidiaries is a single source of funding from the Council in the form of a small number of management fees or loan transactions which are easily verifiable. This, along with minimal third party income, means there a limited opportunities to manipulate revenue.

For 'Fees, Charges and other service income', we have:

- Evaluated the groups accounting policy for recognition of income from 'Fees, charges and other service income' for appropriateness;
- Gained an understanding of the Council's system for accounting for income from 'Fees, Charges and other service income' and evaluated the design of the associated controls;

Our work in this area is complete with the exception of the following:

- Agree, on a sample basis, amounts recognised as income from 'Fees, Charges and other service income' in the financial statements to supporting documents. We have shared our sample with management and have been provided with supporting documentation which the audit team will review to provide assurance that disclosures are appropriate

Our work to date has not identified any issues

The expenditure cycle includes fraudulent transactions

In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period)

We have considered both pay and non pay costs and considered there to be little opportunity for fraudulent transactions. Pay costs are determined by employee contracts and are standard monthly payments. Non pay costs are based on supplier invoice transactions and have to be paid within a set timeframe.

As part of the audit we have considered the completeness, accuracy and occurrence of expenditure transactions by:

- Evaluating the design and implementation effectiveness of the accounts payable process
- Testing a sample of transactions incurred around the year end to ensure these have been accounted for in the appropriate financial period
- Testing a sample of accruals made at year end that have not yet been invoiced to assess whether the valuation has been calculated on an appropriate basis.

Therefore we do not consider this to be a significant risk for North Somerset Council and have rebutted this presumed risk.

Our testing has not identified any issues in relation to fraudulent transactions in the expenditure cycle

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of land and buildings (rolling revaluation)

The Council revalue its land and buildings on a rolling basis. This valuation represents a significant estimate by management in the financial statements due to the size of the number involved (£184m at 31/03/21) and the sensitivity of this estimate to changes in key assumptions.

Additionally, management will need to ensure the carrying value in the Council's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used).

We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk of material misstatement

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation expert and the scope of their work.
- evaluated the competence, capabilities and objectivity of the valuation expert.
- written to the valuer to confirm the basis on which the valuations were carried out.
- reviewed the fixed asset register and valuation reports to identify a sample of land and buildings which have been revalued in year for further testing. In doing this we considered those assets whose values at 31 March 2021 are above performance materiality, those assets where there has been a valuation movement or other change outside of our expectation and a sample of assets where the movement is in line with expectation

Work to be completed

- for each item within our sample we have requested detailed calculation sheets for the 2021 revaluation exercise to support and evidence the assumptions used to calculate the updated valuations.

From our work we identified a trivial balance of assets that were last revalued in 2014-15 which is outside of the prescribed five year period as per the Code. This is a control issue that the Council should review to ensure that they are complying with the requirement of the code.

Our work in this area is largely complete and we will report any further findings to members upon completion of our work

Valuation of Investment Property

The Authority revalue its investment property on an annual bases to ensure that the carrying value is not materially different from the fair value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. The Authority's commercial investment portfolio consists of the North Worle District Centre and the Sovereign Centre in Weston-Super-Mare.

Management has engaged the services of a valuer to estimate the current value of these two assets as at 31 March 2022.

We therefore identified valuation of investment property, particularly revaluations and impairments as a significant risk, which was one of the most significant assessed risks of material misstatements, and a key audit matter.

We have:

- Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- Evaluated the competence, capabilities and objectivity of the valuation report;
- Written to the valuer to confirm the basis on which the valuations were carried out;
- Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding;
- Engaged out own expert to assess the instruction to the Council's valuers, the Authority's valuer's report and the assumptions that underpin the valuation of the investment properties;
- Tested revaluations made during the year to see if they have been input correctly into the Council's asset register; and

Work to be completed:

- Test on a sample basis, revaluations made during the year to ensure they have been input correctly into the Council's asset register. We have been provided with evidence by management and have identified a number of queries that we await response to

We have not identified any issues in our work to date and we will report any findings to members upon completion of the work.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of pension fund net liability

The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£266m in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.

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

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

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

We:

- Updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls;
- Evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- Assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;
- Assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability
- Tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary
- Undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report;

Work to be completed:

- Obtain assurances from the auditor of the Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Our work is not yet complete in this areas we are awaiting the requested programme of work to be completed by the pension fund auditor, as outlined above, to be completed. We are expected this to be complete by the end of September 2022.

Our work to date has not identified any issues

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

Component	Component auditor	Findings	Group audit impact
North Somerset Council	Grant Thornton	See pages 7 to 10 for significant risks work undertaken and any issues identified	There is no impact on the group audit opinion
North Somerset Environment Company	Thomas Westcott	Full scope UK statutory audit performed by North Somerset Environment Company Auditors, Thomas Westcott. The nature, time and extent of our involvement in the work included a discussion on risks and meeting with appropriate members of management. A review of the relevant aspects of North Somerset Environment Company auditor's audit documentation including a review of payroll transactions is to be carried out and we will report any findings to the Committee	We have yet to complete our work in this area and our enquiries to date have not identified any issues

2. Financial Statements – key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<p>Land and Building valuations – £176m</p>	<p>Other land and buildings is comprised of specialised assets such as schools and libraries, which are required to be valued at depreciated cost (DRC) at year end, reflecting the modern equivalent asset necessary to deliver the same service provision. The remainder of land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end.</p> <p>The Council revalues its land and buildings on a rolling programme with a maximum period of five years between revaluations. The Council has engaged its internal valuer to complete the valuation of properties as at 1 January 2022 and 80% of land and building assets were revalued during 2021-22.</p> <p>Management has considered the year end value of non-valued properties, and the potential value change in the assets revalued at 1 January 2022 by applying indices to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties values.</p> <p>The total year end valuation of land and buildings was £176m, a net decrease of £8m from 2020-21 (£184m)</p>	<p>We have reviewed the detail of your assessment of the estimate considering:</p> <ul style="list-style-type: none"> • The assessment of the Council's in-house valuers • The completeness and accuracy of the underlying information used to determine the estimate • The reasonableness of the overall decrease in the estimate • The adequacy of the disclosure of the estimate in the financial statements • The sensitivities used by the valuer to assess completeness and consistency with our understanding and • Consistency of the estimate against Gerald Eve reported indices <p>Testing of the valuer's assumptions requires that sufficient evidence be provided to support any underlying assumptions or indices used to calculate a revaluation. Management have been able to provide appropriate audit evidence to support these underlying assumptions</p> <p>Where assets are revalued before the end of the financial year, assurance is required that these are not materially different to the current value at year end. Assets are valued at 1 January with a valuation date of 31 March and a report confirming that no material variance exist should be provided. We have undertaken a review of those assets not revalued in the year against the auditor's experts indices and considered any movement between the valuation date and the year end. This identified a variance of £6m which is not material but has required further assurance be provided by the valuer. This work is ongoing and we continue to be in discussion with management as to any impact on the statement of accounts</p>	<p>Light Purple</p>

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Investment Property Valuation - £46m	<p>The Council revalue its investment property on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date</p> <p>The Council's commercial investment portfolio consists of the North Worle District Centre and the Sovereign Centre in Weston-Super-Mare.</p> <p>The Council has engaged JLL, as an external expert, to complete the 2021-22 valuation of these two investment properties.</p> <p>The Council engaged its internal valuer to undertake the valuation of the remaining investment properties.</p> <p>The total year end valuation of investment properties was £46m, a net increase of £1m from 2020-21 (£45m)</p>	<p>We have reviewed the detail of your assessment of the estimate considering:</p> <ul style="list-style-type: none"> The assessment of the Council's internal valuers and management's expert JLL The completeness and accuracy of the underlying information used to determine the estimate The reasonableness of the overall increase in the estimate The adequacy of the disclosure of the estimate in the financial statements We have used an auditor's expert to review the work undertaken by both the external valuer. <p>Our work requires that we review and gain assurance over the assumptions and any indices used and our work has not identified any issues in regards to this work.</p> <p>We have employed an auditor's expert to provide assurance over the assumptions used by management's external valuer. This considered that the underlying assumptions and metrics used by the valuer were appropriate and that the valuations were in line with market expectations.</p>	Light Purple

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment																								
Net pension liability – £266m	<p>The Council's net pension liability as 31 March 2022 is £266m (PY £299m) comprising the Local Government and unfunded defined benefit pension scheme obligations.</p> <p>The Council uses Mercer to provide actuarial valuations of the Council's assets and liabilities derived from these schemes</p> <p>A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation was completed in 2019. A roll forward approach is used in the intervening periods, which utilises key assumptions such as a life expectancy, discount rates, salary growth and investment returns.</p> <p>Given the significant value of the net pensions fund liability small changes in assumptions can result in significant valuation movements.</p> <p>There has been a decrease of £33m in the net actuarial deficit during 2021-22</p>	<ul style="list-style-type: none"> We identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. No issues were identified from our review of the controls in place. We also evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuations and gained an understanding of the basis on which the valuations were carried out. This included undertaking procedures to confirm the reasonableness of the actuarial assumptions made: <table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.8%</td> <td>2.7% - 2.8%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>3.5%</td> <td>3% - 3.5%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>4.9%</td> <td>CPI + 1.5% = 4.9%</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>98% / 92%</td> <td>92% - 131%</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>88% / 87%</td> <td>87% - 106%</td> <td>●</td> </tr> </tbody> </table> <ul style="list-style-type: none"> We checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial reports and did not identified any inconsistencies. The Council has considered that the impact of GMP equalisation is not material to the Statement of Accounts. Based on our review of this area we concur with this view 	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.8%	2.7% - 2.8%	●	Pension increase rate	3.5%	3% - 3.5%	●	Salary growth	4.9%	CPI + 1.5% = 4.9%	●	Life expectancy – Males currently aged 45 / 65	98% / 92%	92% - 131%	●	Life expectancy – Females currently aged 45 / 65	88% / 87%	87% - 106%	●	Light Purple
Assumption	Actuary Value	PwC range	Assessment																								
Discount rate	2.8%	2.7% - 2.8%	●																								
Pension increase rate	3.5%	3% - 3.5%	●																								
Salary growth	4.9%	CPI + 1.5% = 4.9%	●																								
Life expectancy – Males currently aged 45 / 65	98% / 92%	92% - 131%	●																								
Life expectancy – Females currently aged 45 / 65	88% / 87%	87% - 106%	●																								

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Grants Income Recognition and Presentation- £95.5m	<p>The Council receives a number of grants and contributions and is required to follow the requirements set out in sections 2.3 and 2.6 of the Code. The main considerations are to determine whether the Council is acting as principal/ agent, and if there are any conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income. The Council also needs to assess whether grants are specific, and hence credited to service revenue accounts, or of a general or capital nature in which case they are credited to taxation and non-specific grant income.</p> <p>There is a requirement to assess whether income received has conditions attached and should therefore be considered grant income or another classification of income. This will allow the Council to ensure the correction presentation of revenue in line with the Code.</p>	<ul style="list-style-type: none"> • We have reviewed management's processes for identifying whether they are agent or principal for grant income and ensured that the appropriate disclosures have been made in the statement of accounts • We have agreed a sample of grant income to third party documentation including the grant paying body to ensure that revenue has been correctly disclosed • We have reviewed supporting documentation to identify any conditions an ensure that the Council has complied with these • We have reviewed year end accruals to understand how these have been calculated and that these are appropriately accounted for. • We have reviewed the Council's assessment as to whether they are acting as principal or agent in the treatment and recognition of grant revenue, and specifically covid grant funding, and considered that this is appropriate <p>We have not identified any issues in relation to this area and considered that the disclosures in the statement of accounts are appropriate.</p>	Light Purple

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £6m	<p>The CLG guidance requires the Authority to approve an annual MRP statement each year end. For capital expenditure incurred before 1st April 2008 MRP will be determined on accordance with the former regulations that applied on 31st March 2008.</p> <p>For unsupported capital expenditure incurred after 31st March 2008 MRP will be determined by charging expenditure over the expected useful life of the relevant assets in equal instalments, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over the life of the asset.</p> <p>Where loans are made to other bodies for their capital expenditure, no MRP will be charged. However, the capital receipts generated by the annual repayments on those loans will be put aside to repay debt instead. This may be reviewed and replaced by a prudent provision if it becomes apparent that the loan may not be repaid</p>	This work is still ongoing and no issues have been identified to date. We will report any findings to management and the Audit Committee on completion of this work	TBC

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Assessment

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

2. Financial Statements - Internal Control

Assessment	Issue and risk	Recommendations
●	<ul style="list-style-type: none"> An ITGC review was undertaken by our IT audit team in 2019-20 which identified 4 control issues in regards to the Council's IT systems The review identified 1 significant deficiency in relation to segregation of duty due to the system administrator's ability combined with their financial role and responsibilities 3 deficiencies which we have followed up in our 2020-21 and 2021-22 audit. These deficiencies relate to: <ul style="list-style-type: none"> An excessive number of domain administrators as 101 accounts were identified A lack of service auditor reports Passwords were not compliant with the Council's own password policy In discussion with management it has been ascertained that the issues identified are still applicable and that the significant deficiency still exists. This has impacted our risk assessment and in some cases, such as journals, has led to a larger sample size to address the issues and provide sufficient audit assurance. We continue to discuss the issues with management and will give consideration to employing IT audit in 2022-23 to provide further assurance on the impact to our risk assessment for future audits. 	<ul style="list-style-type: none"> Recommendations have been shared with management in a separate report for consideration. These recommendations have been accepted by management and management responses received. These issues have still to be fully addressed and remain as outstanding within our audit. We have undertaken a fully substantive audit and this has concluded that the deficiencies identified have not materially impacted the statement of accounts and no further issues have been identified <p>Management response</p> <ul style="list-style-type: none"> We have yet to receive the outcomes and recommendations from the 2021-22 update of the ITGC review. We will respond to any recommendations when they are raised

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Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

2. Financial Statements - other communication requirements

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

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Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit & Standards Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation will be requested from the Council, including specific representations in respect of the Group.
Confirmation requests from third parties	<p>We requested from management permission to send confirmation requests for bank and investment balances. This permission was granted and the requests were sent. We have yet to receive confirmation for four investment balances and continue to work with management to complete this process. Any issues identified from this work will be reported to members at Audit & Standards Committee.</p> <p>We requested from management permission to send confirmation requests to the Pension Fund auditor. This permission was granted and the requests were sent. We have not yet received the final response from the pension fund auditor and will require this prior to issuing our opinion.</p>
Accounting practices	Our review found no material omissions in the financial statements.
Audit evidence and explanations/significant difficulties	<p>All information and explanations requested from management were provided.</p> <p>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.</p>

2. Financial Statements - other communication requirements



Our responsibility

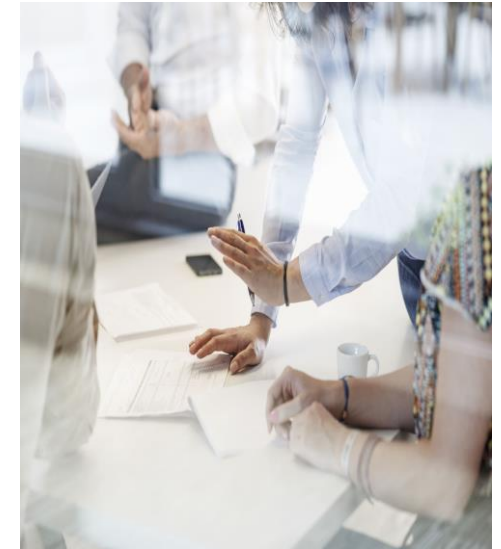
As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability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

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Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> the use of the going concern basis of accounting is not a matter of significant focus of the auditor’s time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity’s services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"> the nature of the Council and the environment in which it operates the Council's financial reporting framework the Council's system of internal control for identifying events or conditions relevant to going concern management’s going concern assessment. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> a material uncertainty related to going concern has not been identified management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>Subject to review we have completed our work in this area and in the work undertaken to date no inconsistencies have been identified.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties <p>Subject to review our work in this area is complete and to date we have nothing to report on these matters.</p>
Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. This work is not required at North Somerset Council as they do not exceed the threshold required for the completion of this work.</p>
Certification of the closure of the audit	<p>We intend to certify the closure of the 2021-22 audit of North Somerset Council in the audit report.</p>



3. Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. The Code requires auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

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

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Improving economy, efficiency and effectiveness

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



Financial Sustainability

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



Governance

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

Potential types of recommendations

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



Statutory recommendation

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



Key recommendation

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



Improvement recommendation

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

3. VFM - our procedures and conclusions

We have yet undertake our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix G to this report. We expect to issue our Auditor's Annual Report by December 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

4. Independence and ethics

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

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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

4. Independence and ethics

Audit and non-audit services

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

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Teachers Pension Return	7,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £7,500 in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Housing Benefit Claim	18,850	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £18,850 in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. None of the services provided are subject to contingent fees.

Appendices

A. Action plan – Audit of Financial Statements

We have identified 8 recommendations for the group as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium	Our review of related parties identified that two elected members had not made the appropriate declarations in line with the Council's requirements as stated in the Members Code of Conduct. Whilst we acknowledge that for one of the individuals concerned, there was a health related matter that precluded a return being made, we have been unable to identify any mitigating circumstances as to why Cllr Goddard has not complied with these requirements to make the necessary declarations. Elected members and senior officers are required to make appropriate and accurate declarations to ensure proper transparency in the governance arrangements of the Council and all Members and senior officers should ensure that they comply with these requirements	<p>Management should continue to ensure that all appropriate declarations are received from members to provide assurance that Financial Regulations and Council Policy are being complied with</p> <p>Management response</p> <p>We accept the recommendation being made and will look to implement changes to the current arrangement so that Members provide declarations in accordance with the Code of Conduct</p>
Medium	Management have provided monthly payroll reports for the purpose of ensuring that employee remuneration disclosures in the statement are accurate. Whilst management could provide monthly reports they were unable to provide a valid explanation for year on year variances. This was due to an issue with the way the i-Trent system was running reports in prior year.	<p>We recommend that the Council reviews how the i-Trent system is generating FTE reports to ensure that going forward reliable reports are run from the system.</p> <p>Management response</p> <p>We will obtain and review the FTE reports on a regular basis throughout the year rather than at year end, and investigate significant variations with HR and payroll colleagues to ensure that the reports are meaningful</p>

Controls

- High – Significant effect on control environment or a potential material impact on the financial statements
- Medium – Some effect on control environment or on the accuracy of the financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 115</p> <p>Medium</p>	<p>It has been identified again this year that finance users do not require journal authorisation prior to being posted to the system and that journals can be posted without a narrative being entered.</p> <p>We therefore continue to recommend this in 2021/22.</p>	<p>We recommend that risk-based journal authorisation controls are implemented in the form of a preventative (system based) control which requires authorisation before posting to the general ledger, or a detective/corrective control such as a retrospective review of journal entries by an individual other than the posted.</p> <p>We also recommend that a narrative is entered for each journal so that an audit trail is maintained.</p> <p>Management response</p> <p>As in previous years the council recognises the perceived risk being highlighted within the report which could result in potential fraud or error within the financial statements. We have reviewed the core system controls which indicate that it is not possible to implement an automated approval process for finance user batch journals prior to them being posted, but we will look to implement processes that would provide a review and approval of all batches prior to posting, as well as a retrospective review of material journals or those with significant impact. As a response to recommendations raised in previous years we have previously implemented changes to the template for posting batch journals to highlight lines missing narrative, and review for journals posted without narrative on a monthly basis, with feedback to officers posting such journals. We will continue with this robust scrutiny.</p>
<p>Medium</p>	<p>Within the journal population we identified one entry that had been posted by an officer that was no longer employed by the Council. Further investigation identified that this was an automated interface with a named officer for the purpose of administration. Whilst this has no impact on the financial statements it is still considered best practice that all system information is updated to reflect officers no longer employed by the Council. There is a risk that the Council do not have robust enough processes in place to identify and remove user access for leavers and that journals will be posted either inappropriately or fraudulently.</p>	<p>Management should review the processes for identifying and removing user access for officers no longer employed and ensure that these are appropriate and properly implemented.</p> <p>Management response</p> <p>The items highlighted were not journals (transactions initiated by a user, using judgement to decide on the coding of entries, and the amounts to be posted / adjusted), but the automated posting of interface files, posted by the system under the user name of a former system administrator, where the content of the file is set in the feeder system which is interfacing into Agresso. Hence, we do not agree that this indicates a weakness in identifying leavers, or removing their access rights to post in the financial ledger, or increased risk of inappropriate or fraudulent transactions. We have subsequently reviewed and updated all interfaces and processes using system administrators as the system user to a generic 'System' user.</p>

Controls

- High – Significant effect on control environment or a potential material impact on the financial statements
- Medium – Some effect on control environment or on the accuracy of the financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Medium	Assets are valued at 1 January with a valuation date of 31 March. There is, therefore, the possibility of significant movement in asset values between the date they are valued and the valuations date. The valuer does not currently provide formal assurance that this has not occurred and therefore the risk of a material movement has not been fully mitigated.	<p>When providing the asset valuations the valuer should provide formal documented evidence to confirm that there has been no material movement in the asset valuations between the date they are valued and the valuation date</p> <p>Management response</p> <p>The council has a process in place to routinely review asset values to ensure that there are no material movement in the asset valuations between the date that they are valued and the valuation date and this is carried out in discussion with the qualified valuer however, we accept that this is not documented or included within the final reports. Changes will be made to the process to ensure that this is fully documented in future years.</p>
Medium	There is a requirement within the code that where contingent rents are reviewed and an increase is applied that the increase in the rent is charged as financing and investment income and expenditure in the Comprehensive Income and Expenditure Statement. Review of leases identified that this has not happened and therefore rental increases are not being appropriately recognised. The value of the rental increased is £59k and there is a risk that expenditure will be understated.	<p>Management should review disclosures in the statement of accounts and ensure that this is in line with the requirements of the Code.</p> <p>Management response</p> <p>The Council only holds 2 finance leases and the contingent rents in relation to these two leases has been quantified in the ledger, and any departure from the accounting treatment recommended in the is clearly not material, and considered to be below the external audit limit for triviality in reporting. As there are only this small number of relevant leases, we do agree that there is a risk of understatement of such leases, but accept the finding that if the council had more leases then this may have led to a potential understatement of such leases. The council's processes will be updated to ensure that such items are captured in future.</p>
Low	We identified a trivial balance of assets that have not been valued since 2014-15 which is not in line with the requirement of the code. Whilst the balance is trivial there is a risk that failure to identify assets that have not been valued in an appropriate timeframe could have a material impact on the statement of accounts	<p>We recommend that management ensure that all accounting policies are being adhered to and that all disclosures in the statement of accounts are in line with the requirements of the Code</p> <p>Management response</p> <p>The council has a process which seeks to revalue all of its assets over a three year period, which is more frequent than the Code requirements. Evidence shows that the council has also gone beyond this by revaluing approximately 80% of its assets during 2021/22 and so have established procedures which adhere to the accounting policies and recognise the risk being highlighted. Unfortunately an error has occurred meaning that an asset has been omitted and so the council will implement a further review step for future years.</p>

Controls

- High – Significant effect on control environment or a potential material impact on the financial statements
- Medium – Some effect on control environment or on the accuracy of the financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Low	<p>Management gain assurance that information submitted to the actuary for the pension liability calculation is accurate. During the audit we identified that management had reviewed the month 9 data and that the pension fund had submitted the month 12 data to the actuary. This is the standard approach for all Avon Pension fund admitted bodies and there is currently no process in place for the pension fund to notify admitted bodies or for the Council to identify any significant changes in the data. There is a risk that data will be submitted to third parties that could have a material impact on the accounts that management have not reviewed.</p>	<p>We are satisfied that a process is in place to review data prior to submission and recommend that management ensure this is being used to review the most up to date and relevant information prior to submission to third parties.</p> <p>Management response</p> <p>As noted, The Council complies with the existing arrangements for reconciliation of information provided by the pension fund at month 9, relating to contributions and staff numbers within the pension scheme to the Council's ledger. The Council also complies with existing arrangements for the communication of significant changes impacting on the actuary's report between month 9 and month 12, such as bulk transfers of staff or schools achieving academy status. There is no agreed process across the bodies covered by the Avon Pension Fund for the information provided to the actuary to be provided to local authorities at month 12 for review or reconciliation. Hence the Council does not have the opportunity to review this data, and instead reviews the outputs included in the actuary's report for reasonableness. Hence any recommendation for such a process would not apply solely to the Council, but would need reported by auditors of the Avon Pension Fund and all member bodies, and processes agreed for future years.</p>

Controls

- High – Significant effect on control environment or a potential material impact on the financial statements
- Medium – Some effect on control environment or on the accuracy of the financial statements
- Low – Best practice

B. Follow up of prior year recommendations

We identified the following issues in the audit of North Somerset Council's 2020/21 financial statements, which resulted in 4 recommendations being reported in our 2020/21 Audit Findings report. We have followed up on the implementation of our recommendations and note 2 are still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	<p>Related Parties</p> <p>The Council has a policy whereby all members, together with the Council's Corporate Management Team, are required to sign a declaration detailing any relevant transactions entered into by them or close members of their family during the year</p> <p>It was identified that three declarations had not been completed by members at the time that the accounts were produced</p>	<p>We have reviewed the declarations in 2021-22 as part of our review of related party transactions and have identified that two members have failed to complete the declaration, although we accept that there were mitigating circumstances for one of these individuals. This has resulted in a recommendation being raised in appendix A</p>
✓	<p>Disposals</p> <p>The Council identified one primary school, which transferred from the Council's control to Academy status in 2017-18, was erroneously not included as a disposal in the Council's accounts that year. The transfer was for an immaterial balance and the Council included this as a disposal in the 2020-21 accounts</p>	<p>We have not identified any issues with disposals as part of our 2021-22 audit and, therefore, consider that the Council has appropriately addressed the recommendation</p>
X	<p>Journals</p> <p>Journals posted by finance users do not require authorization prior to being posted to the system. In addition, journals can be posted without narrative being entered</p>	<p>Testing of journals has identified that these issues have not been addressed and that users are still able to post journals without authorization. We have raised a recommendation in appendix A</p>
✓	<p>Retention of supporting documentation</p> <p>Sample testing noted weaknesses in documentation maintained to support transactions</p>	<p>Detailed transaction testing undertaken in 2021-22 has not identified any deficiencies in management's retention of documentation to support transactions and, therefore, we consider that this issue has been addressed</p>

Assessment

- ✓ Action completed
- X Not yet addressed

C. Audit Adjustments

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

Impact of adjusted misstatements

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

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
--------	--	--	---------------------------------------

No adjustments identified to date.

C. Audit Adjustments

Misclassification and disclosure changes

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

Disclosure omission	Auditor recommendations	Adjusted?
A small number of amendments were made to the Accounting Policies to more accurately reflect	Our review and audit of the draft accounts identified a small number of presentational changes to enhance the clarity of the accounts for the reader. We have shared the areas for presentational amendments and these will be reflected in the revised accounts.	✓
Related parties note in draft accounts show 3 Councillors disclosed and should state	The Council should ensure that disclosures in the statement of accounts accurately reflect the organisational position	✓
the exit package was identified to relate to the prior year.	Management should review the statement of accounts to ensure that transactions are recorded in the correct period	✓
Figure representing 2020/21 total of (Surplus) / Deficit brought forward as at 1st April in the Collection Fund table does not agree with the prior year statement of accounts	Management should review the draft statement of accounts prior to issue to ensure that all prior year figures agree to the published final statements	✓
Leases - Note 36.2 - Discrepancy between supporting documentation and the statement of accounts. The disclosure should be updated to show 'The Council has leased out 6 secondary schools and 38 primary schools.	The Council should ensure that disclosures in the statement of accounts accurately reflect the organisational position	✓
Leases - Note 36.1 - Discrepancy between supporting documentation and Statement of Accounts. The disclosure should be updated to show 256 years for property.	The Council should ensure that disclosures in the statement of accounts accurately reflect the organisational position	✓
Some assets within the Land & Building category have useful lives which exceed the range (ie 1-50 years) as per accounting policy within the draft Statement of Accounts	The Council should ensure that all accounting policies are appropriately implemented and reviewed to ensure that they are fit for purpose.	✓

C. Audit Adjustments



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Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021/22 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
No adjustments identified to date.				

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2020/21 financial statements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
No prior year unadjusted misstatements.				

D. Fees

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

Audit fees	Proposed fee	Final fee
Council Audit	151,784	TBC
Total audit fees (excluding VAT)	£151,784	£TBC

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services*		
Certification of Teacher's Pension Return	4,200	4,200
Certification of Housing Benefit Claim	15,776	15,776
Total non-audit fees (excluding VAT)	£19,976	£19,976

*these fees are those charged in the 2021-22 financial period and will differ to those on slide 24 which are agreed fees for delivery of the 2021-22 certification work which will be undertaken in 2022-23

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

- fees per financial statements – £214,000
- Less additional fees 2019/20 - £12,000
- Less additional fees 2020/21 - £39,850
- Less VFM costs 2020/21 - £26,000
- Additional fees 2021/22 - £15,634
- total fees per above - £151,784

E. Audit letter in respect of delayed VFM work

Councillor J Cato
Chair of the Audit Committee
North Somerset Council
Town Hall
Walliscote Grove Road
Weston-super-Mare
BS23 1UJ

Dear Councillor Cato

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies we are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the delay and resource pressures as a result of pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 31 December 2022.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

Barrie Morris, Director
On behalf of Grant Thornton UK LLP

[LETTER TO BE WRITTEN ON CLIENT HEADED PAPER]

Grant Thornton UK LLP
2 Glass Wharf
Bristol
BS2 0EL

[Date] – (TO BE DATED SAME DATE AS DATE OF AUDIT OPINION)

Dear Sirs

North Somerset Council
Financial Statements for the year ended 31 March 2022

This representation letter is provided in connection with the audit of the financial statements of **North Somerset Council** and its subsidiary undertaking, **North Somerset Environment Company Ltd** for the year ended 31 March 2022 for the purpose of expressing an opinion as to whether the group and Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the group and Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the group and Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the group and Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include [...]. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. During the year we evaluated our estimation process for [add estimation] and the following change/s to estimation process was/were made[...]. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

Commented [KP1]: If there have been changes to estimation techniques or there have been issues identified in the estimation process, i.e. valuation of land and buildings, you should refer to them here..

- vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- vii. Except as disclosed in the group and Council financial statements:
 - a. there are no unrecorded liabilities, actual or contingent
 - b. none of the assets of the [group and]Council has been assigned, pledged or mortgaged
 - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x. The financial statements are free of material misstatements, including omissions.
- xi. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiii. We have updated our going concern assessment. We continue to believe that the group and Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that :
 - a. the nature of the group and Council means that, notwithstanding any intention to cease the group and Council operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements
 - b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and
 - c. the group and Council's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the group and Council's ability to continue as a going concern need to be made in the financial statements
- xiv. The group and Council has complied with all aspects of ring-fenced grants that could have a material effect on the group and Council's financial statements in the event of non-compliance.

Information Provided

- xv. We have provided you with:
 - a. access to all information of which we are aware that is relevant to the preparation of the group and Council's financial statements such as records, documentation and other matters;

- b. additional information that you have requested from us for the purpose of your audit; and
 - c. access to persons within the Council via remote arrangements, from whom you determined it necessary to obtain audit evidence.
- xvi. We have communicated to you all deficiencies in internal control of which management is aware.
- xvii. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xviii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xix. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and Council, and involves:
 - a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the financial statements.
- xx. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
- xxi. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxii. We have disclosed to you the identity of the group and Council's related parties and all the related party relationships and transactions of which we are aware.
- xxiii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
- xxiv. *[Any other matters that the auditor may consider appropriate – particularly where information has been restricted, or has been difficult to obtain]*

Annual Governance Statement

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

Narrative Report

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

Approval

The approval of this letter of representation was minuted by the Council's *[enter Committee name]* at its meeting on *[ENTER DATE]*.

Yours faithfully

Commercial in confidence

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....

Signed on behalf of the Council

North Somerset Council

Report to the Audit Committee

Date of Meeting: 22 September 2022

Subject of Report: Statement of Accounts 2021-22

Town or Parish: All

Officer/Member Presenting: Steve Ballard, Principal Accountant

Key Decision: No

Recommendations

1. The Audit Committee is requested to:
 - a. take note of any adjustments to the financial statements set out in the external auditor's report;
 - b. consider the matter(s) raised in the Annual Governance Statement;
 - c. delegate approval of the draft letter of representation to the Chair of the Audit Committee; and
2. That subject to any comments under 1 above, the Audit Committee:
 - a. approve the Statement of Accounts for 2021/22, subject to, any amendments necessary upon quantification of the impact of any issues arising from on-going work by the external auditors;
 - b. arrange for the Chair of the Council's Audit Committee and the Chief Financial Officer to sign the Accounts for 2021/22 as representing a 'true and fair view' of the financial position as at 31 March 2022, following any amendments necessary upon quantification of the impact of any issues arising from on-going work by the external auditors; and
 - c. arrange for the Leader of the Council and the Chief Executive Officer to formally approve the Council's Annual Governance Statement as part of the financial accounts and sign accordingly.

Summary of Report

Statement of Accounts

1. The Council's draft Statutory Statement of Accounts was prepared and approved ready for audit by the Director of Corporate Services on 7 July 2022. The audit of the Accounts is on-going. The latest revised Statement of Accounts for 2021/22 are attached at **Appendix A**.
2. These revised accounts reflect the adjustments agreed with Grant Thornton during the course of the audit up to 9 September 2022, but clearly do not reflect the impact of any

changes which may potentially be required as a result of any outstanding audit testing and assurance works.

3. Grant Thornton, the Council's external auditors, currently expect to give an unqualified audit opinion, but are unable to provide their audit opinion until their programme of audit assurance and testing is completed. Should any material impact of errors be identified from this work, they would need to be adjusted for and reported through to Members.
4. The Accounts and Audit Regulations 2022 require the accounts to be formally approved and published by 30 November 2022. The next Audit Committee is due to take place on 24 November 2022.
5. In order to complete the audit process on the most timely basis possible, we request that the Audit Committee delegate authority to approve the Letter of Representation to the Chair of the Audit Committee, and to approve the revised Statement of Accounts for 2022/22, subject to any further amendments necessary to reflect any material impact of matters arising from their on-going audit testing.
6. Under the Code of Audit Practice the results of the external auditor's work on the Council's Value for Money arrangements will be reported in the Auditor's Annual Report, due to be reported to the Council by the end of December 2022.

Annual Governance Statement

7. The Annual Governance Statement (AGS) is required by the Accounts and Audit Regulations 2015 to be published with the Council's Statement of Accounts, and to be formally approved and signed by the Leader of the Council and the Chief Executive. The AGS for 2021/22 has been completed in accordance with the framework previously agreed by the Audit Committee.

The AGS provides an update of the significant issues raised in the previous year's statement, and highlights the key new risks to the Council arising during 2021/22. The Statement continues to reflect the current position at September 2022.

Policy

8. The Statement of Accounts provide an overview of the Council's financial performance for the year and its financial sustainability going forward. The preparation and publication of the Accounts therefore contributes towards the Council's Vision to be an 'Open, fairer and greener North Somerset', and our Priority to be an 'Open and enabling organisation'.

Details

Statement of Accounts

9. The draft Statement of Accounts for 2021/22 was approved by the Director of Corporate Services and published on the Council's website, on 7 July 2022.
10. It is the responsibility of the Audit Committee to consider the draft Accounts in detail, and also approve the audited Accounts as part of their governance role.

11. Members of the Audit Committee attended a training session 'A Councillors' Guide to Understanding your Council's Financial Reporting Requirements' provided by CIPFA in July 2022.
12. Audit Committee members also attended an informal workshop on 12 September 2022, on the Narrative Report and core financial statements. The Chair provided officers with feedback from members of the committee in advance of the session, along with a series of detailed questions or areas that they would like to focus on, so that officers were able to review and prepare a more focused workshop session.
13. The workshop aimed to assist members in undertaking their core duties in relation to the review and approval of the Council's annual statement of accounts. Members and officers discussed potential amendments to the content and format of the Narrative Report and financial statements, either before the accounts are finalised in 2021/22, or in preparing the draft statements for 2021/22.
14. Since the draft Accounts were presented for audit in July, the Council's external auditors', Grant Thornton, have undertaken the majority of their review and prepared their draft Audit Findings Report (ISA 260 Report). This report summarises the outcome on the annual accounts audit to date, and is also being presented to this meeting.
15. The auditor has outlined in their draft report that, subject to the completion of their audit testing, and any material impact of any errors arising from this work being adjusted for in the statement of accounts, he is satisfied that the Accounts have been compiled in accordance with the Code of Practice on Local Authority Accounting 2021/22 (The Code).
16. The Council's current revised Statement of Accounts for 2021/22, subject to completion of the audit process, is attached at Appendix A.. These revised accounts reflect the adjustments agreed with Grant Thornton during the course of the audit up to 9 September 2022, but clearly do not reflect the impact of any changes which may potentially be required as a result of any outstanding audit testing and assurance works.
17. As part of the completion of the audit, and prior to the issue of the audit certificate by the auditors, the Audit Committee is required to consider and sign a formal letter of representation, and to submit this to the auditor. This letter should be signed by the Director of Corporate Services and the Chair of Audit Committee. At the time of this report, the auditors have yet to finalise the wording of the assurances that they require in this letter.
18. Once the wording of the letter is finalised, in order to complete the audit process on the most timely basis possible, we request that the Audit Committee delegate authority to approve the Letter of Representation to the external auditors, to the Chair of the Audit Committee
19. We request that the Audit Committee approve the revised Statement of Accounts for 2022/22, subject to, any further amendments necessary to reflect any material impact of matters arising from their on-going audit testing.
20. The sources of assurance available to members of the Audit Committee in reviewing and approving the Statement of Accounts, the Annual Governance Statement, and the Letter of Representation, are summarised in **Appendix B**.

Annual Governance Statement

21. The Council's Annual Governance Statement has been published within the draft Statement of Accounts, and is a declaration of assurance.
22. In accordance with the framework agreed by the Audit Committee, the Head of Audit West has led on the collation and co-ordination of information relating to the preparation of the draft Statement, and gathering of evidence to support the Statement.
23. The Audit Committee received the Head of Audit West's opinion on the Council's internal control framework at the Audit Committee meeting update in April 2022, prior to inclusion within the draft statement of accounts in July 2022.
24. The AGS highlights key risks to the Council identified in the previous and current year, and sets out the high level mitigating actions that the Council had taken to address these significant issues.
25. At the Audit Committee informal workshop on 12 September 2022, officers agreed that member feedback and questions on the draft Annual Governance Statement would be passed to the Head of Audit and Assurance for consideration and further discussion with members. It is currently expected that any changes in the presentation of the AGS agreed will be taken into account in the preparation of the 2022/23 AGS, rather than the 2021/22 AGS amended.
26. The Audit Committee is requested to consider the matters raised in the Annual Governance Statement.

Consultation

27. As detailed in the body of the report, the Accounts were made available for inspection to members of the public, in line with statutory requirements.
28. Senior officers of the council have been involved with the formulation of the AGS, and members of the Audit Committee have been regularly updated with details of the process and outcomes.

Financial Implications

29. Financial implications are contained throughout the Statement of Accounts.

Legal Powers and Implications

30. The annual Accounts and the Governance Statement have been prepared in accordance with all relevant legislation, which is detailed throughout the report.
31. The Accounts and Audit (England) Regulations 2015, Regulation 9(2), requires the Council to:
- a) consider, either by way of a committee or by the members meeting as a whole, the statement of accounts;
 - b) approve the statement of accounts by a resolution of that committee or meeting;
 - c) ensure that the statement of accounts is signed and dated by the person presiding at the committee or meeting at which that approval is given.
32. Regulation 9(3) requires the responsible financial officer to re-confirm on behalf of that authority that they are satisfied that the statement of accounts presents a true and fair view of:
- a) the financial position of the authority at the end of the financial year to which it relates; and
 - b) that authority's income and expenditure for that financial year, before the approval of the accounts.
33. The preparation and publication of an Annual Governance Statement is in accordance with the "Delivering Good Governance in Local Government" framework introduced by CIPFA SOLACE during 2007, and updated in 2012. The Statement explains how North Somerset Council has complied with the Local Code of Corporate Governance which arises from the CIPFA framework and meets the requirements of the Accounts and Audit (England) Regulations 2015, specifically Part 2, Regulation 3, which requires:
34. A relevant authority must ensure that it has a sound system of internal control which:
- a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;
 - b) ensures that the financial and operational management of the authority is effective; and
 - c) includes effective arrangements for the management of risk.
35. Regulation 6(1) requires authorities to conduct a review of the effectiveness of its system of internal control, and to prepare an annual governance statement, at least once a year.
36. Regulation 6(2) requires the findings of the review of the effectiveness of the system of internal control, and the Annual Governance Statement, to be considered and approved by a Committee of the relevant body, or by its members of the body meeting as a whole. At North Somerset Council, this function is the responsibility of the Audit Committee.

Climate Change and Environmental Implications

37. None. The Accounts and AGS do not directly impact on climate change and the environment.

Risk Management

38. Risk implications are contained throughout the Annual Governance Statement.

39. Failure to comply would result in non-compliance of statute (notably approval of the accounts by 30 November 2022), and leave the Council open to criticism by external audit and other external organisations.

Equality Implications

40. The Accounts and AGS have been prepared in line with statutory legislation.

41. As highlighted at the Accounts Update report, reported to the April 2022 Audit Committee, the financial report presented to members, and for external audit review, is not fully readable by specialist accessibility document reader software, but is as accessible as possible in the time allowed. The audited accounts will be published on the Council's external website, and an accessible version of the final document will be prepared by the Council's Graphics team, and published on the Council's website.

Corporate Implications

42. Although the production of an Annual Governance Statement is a statutory requirement of the Accounts and Audit (Amendment) (England) Regulations, the responsibility for securing effective governance, internal control and risk management arrangements rests with all senior officers and members of the Council, and not with auditors and finance staff alone.

43. The Council's external auditor will take a view on whether any significant governance or internal control weakness identified by the AGS, and the action being taken to remedy them, are a proper reflection of the Council's governance and internal control arrangements, and that no material weaknesses have been omitted.

Options Considered

44. None. The Accounts and AGS have been prepared in line with statutory legislation.

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Appendices:

Appendix A Revised draft Statement of Accounts 2021/22, including amendments to date, but excluding the draft audit opinion

Appendix B – Sources of assurance for Audit Committee members in approving the statement of accounts, Annual Governance Statement and Letter of Representation.

Background Papers:

NSC Statement of Accounts 2021/22 – Draft published 7 July 2022
Audit Committee - Accounts workshop - 12 September 2022

Appendix B

Sources of assurance for Audit Committee members in approving the statement of accounts, Annual Governance Statement and Letter of Representation.

The Council is a non-profit making, public sector organisation, and officers are not paid performance related pay. Therefore, it is considered to be limited incentive for officers to fraudulently manipulate financial outcomes and the financial statements.

The Council has maintained its systems of internal control, including segregation of duties, regular review of key controls including bank reconciliations, control account reconciliations, and reconciliations of interface updates from sub-systems to the financial ledger.

Agreed Financial Regulations, Contract Standing Orders, Whistle-blowing policy, Anti-Money Laundering policies and Codes of Conduct for officers and members are in place.

Managers throughout the council are aware of the importance of maintaining adequate and effective governance arrangements.

Appropriate arrangements are operated to deter and detect fraud and investigations are routinely undertaken.

The Internal Audit Annual Audit Plan is developed to provide reasonable assurance that appropriate internal control arrangements are in place, and are operating effectively. This includes internal controls within general ledger and sub systems, such as access controls, segregation of duties, and the application of the scheme of delegation for approval of transactions, and over-arching controls such as reconciliations. No areas where there is a potential for override of controls, or inappropriate influence over the financial reporting process, have been identified.

As part of statutory requirements, the Head of Internal Audit is required to give an opinion on the internal control framework and systems to manage risk. This opinion for 2021/22 has been drafted for inclusion in the Annual Governance Statement in the accounts. The draft opinion identified no significant weaknesses or failures in relation to risks of material misstatement in the financial statements due to fraud.

Internal Audit's conclusions support the Chief Executive and Leader of the Council in certifying the Annual Governance Statement.

Officers with responsibility for the preparation of the financial statements are professionally qualified accountants with many years' experience, including the preparation and review of accounting estimates. Working papers supporting the accounts are subject to review and sign off by other finance officers. All material accounting estimates are subject to discussion and agreement with the Head of Finance.

Officers undertake training and review emerging guidance in relation to asset valuations and pension accounting, and ensure estimates are aligned to the guidance.

Finance officers undertake regular monitoring of financial performance and prepare forecasts of future outcomes, specifically with regards to cash-flows and delivery of a balanced revenue budget for future years, through the medium-term financial planning and capital strategy processes; all of which inform the council's view of going concern. Any significant risks or issues would immediately be escalated to the Corporate Leadership Team.

During accounts preparation, previous years accounts are reviewed, and emerging issues discussed amongst the finance team. Items potentially requiring accounting estimates are identified, and included in the working paper supporting Note 2, the 'Estimation uncertainty' disclosure.

Risks of material mis-statement in the accounts are quantified through undertaking sensitivity analysis of each area of estimation to identify the estimates with the potential to lead to material mis-statement.

The valuations identified as requiring key accounting estimates are provided by 'expert' valuers. The expert valuers are bound by professional standards as members of their professional bodies (RICS and the Institute of Actuaries), and follow relevant professional guidance, such as the RICS Red Book.

Council finance officers are not experts, but review the methods, assumptions and source data set out in the valuers' service level agreements and output reports as being used by the experts for reasonableness, including consistency with previous years.

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**North Somerset Council
Financial Report
2021/2022**

Accessibility and Contents

Accessibility

Please note this document is not yet fully accessible to document reader software.

This is in order to meet the tight timescales for the preparation of the draft accounts, review by members, and by the Council's external Auditors. The Financial Report will be re-formatted and published in an accessible version following the completion of the external audit and approval of the accounts.

If you need help in accessing the information within the document, please call or e-mail our Head of Finance Melanie Watts, on 01934 634618, Melanie.Watts@n-somerset.gov.uk.

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Narrative Report

What is in the Financial Report?

The Council publishes an annual Financial Report, incorporating the Statement of Accounts for the financial year, information about the governance of the Council and also details of the major influences on the Council's finances which affect how it manages its finances both now and in the future.

This report provides information about the Council's costs, its income streams, and its reserves and balances. All information included within the report is in draft form and is subject to review by the Council's auditors.

Narrative Report from the Director of Corporate Services

The Narrative Report is the introductory statement to the Council's accounts for the 2021/22 financial year. It has been structured in such a way to enable readers to understand North Somerset Council, its operating environment, and key issues which affect the Council, the delivery of its services, and its financial position, including:

- An overview of North Somerset
- Financial context
- Performance during the 2021/22 financial year
- Looking ahead in the medium term
- Summary position
- Basis of preparation of the accounts and an explanation of the accounting statements

1. An Overview of North Somerset

North Somerset is a unitary council covering an area of around 37,500 hectares (145 square miles) and currently has a population of approximately 211,500 people. It is strategically placed close to the major cities of Bristol and Cardiff and has excellent transport links with the M5 and the mainline railway from Bristol to the South West running north to south through the district and remains a popular visitor destination.

Almost 40 percent of North Somerset's residents live in rural communities or 'rural town hubs' such as Clevedon, Portishead and Nailsea. Weston-super-Mare is already the third largest settlement in the West of England, with significant further expansion planned.

Recent forecasts show that the population is projected to grow significantly over the next two decades, from its current level to almost 252,000 by 2041, which is faster than the national average. Additionally, the area has proportionately more elderly and young people than other comparative unitary councils, which are also set to increase. Source: ONS Estimates for 2016.

Overall North Somerset is considered prosperous, with below average unemployment and above average weekly earnings. However, there are big differences between areas and individuals: North Somerset is unusual in including areas in both the most and least deprived 1% in England, giving a wide range in deprivation scores between neighbouring towns and villages within the area.

In recent years the Council has faced both economic and service-related pressures, although it continues to be an ambitious organisation which is recognised for providing good value services within a challenging financial environment.

Covid-19 Pandemic

The Covid-19 pandemic continued to significantly impact on the Council during the year, as well as on our residents, businesses, partners, other public institutions, and the voluntary and community

Narrative Report

organisations within our region. Looking back to its starting point in March 2020, we can see that the pandemic has required an unprecedented, collective response to mobilise the resources, skills and goodwill of many across the District, to ensure that those who needed help and support received it. Although the impacts of the pandemic have changed over time, we will continue to do all we can to support our residents, communities and local businesses by reviewing our services so that they remain relevant to the latest situation.

The Governments' national guidance and reaction to the pandemic has also continued to evolve, along with their many support packages and interventions, the majority of which have now ceased. The success of the vaccination programme and other measures, now leaves the country in a position where it is living with much lower levels of Covid and trying to establish a new 'norm'.

Over the course of the past two years the Council has recognised three major phases of the pandemic for North Somerset, its residents and businesses, which have required different responses;

- an initial emergency response – which saw some services reduced, scaled or stopped (for example car parks and libraries were closed); and other new services created (community hubs was established to provide food and essential supplies to residents who were shielding),
- a transitional phase – which saw some services or processes delivered in different ways (for example, new ways of working and the transition to online or digital solutions), and some services beginning to be re-opened,
- a recovery and renewal phase – which sought to understand the impacts on the residents and businesses within our communities, and to support them to recover and regenerate back to a position prior to the Covid-19 emergency.

The Government's response to supporting local government through the pandemic has been essential. It has provided an extensive range of funding and support measures since March 2020, as well as updating guidance and regulations to enable councils to continue to provide vital services and respond to the very real situations faced within our communities. The scale of financial support has been tailored to the specific needs of the pandemic and so has reduced during 2021/22, compared to the previous financial year.

During the 2021/22 financial year the Council continued to experience a range of financial impacts on our budget. These have been closely monitored and assessed to ensure that funding was available. Some of these impacts were considered, planned and approved in advance. For example, external service providers in fields such as adult social care, leisure and transport, were provided with additional financial support to ensure that they could continue to deliver core services or additional Covid related activities. However, the Council also experienced unplanned impacts on its budget, notably reductions or deferrals within income streams, such as car parking, concessions, investment and property income, leisure services, and planning fees. Generally these reductions were lower than in the previous year, and funded from the government grant.

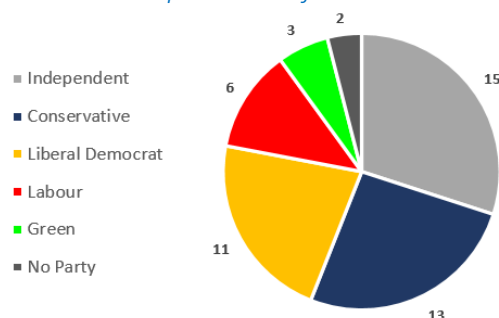
Throughout the pandemic, the Council has communicated with the public through a variety of channels including holding online virtual meetings and webinars, sharing press releases, and social media, as well as continuing with more formal reporting, in order to reach as many people as possible. Communication and engagement plans are recognised as an important priority. It is anticipated that these will become an embedded part of all future service planning.

Narrative Report

Our Constitution

The Council has an approved Constitution in place which sets out how it operates, how decisions are made, and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people. The Constitution, which can be found on the Council's website at [Constitution](#), is reviewed on a regular basis with the most recent update being in May 2022 following a detailed review led by the Audit Committee.

Our Leadership and Workforce



Our 50 elected Councillors represent the people of North Somerset and they set the overall policy of the Council, operating with a Leader and Executive model as the current political management structure.

Following the local elections in May 2019, no single political party or group has overall control and an alliance of Independent, Liberal Democrat, Labour and Green Party councillors, are working closely together to

deliver key outcomes. There have been by-elections since 2019 and the chart has been updated to reflect the latest position.

The Leader of the Council is responsible for the appointment of members of the Executive, the allocation of portfolios, and the delegation of executive functions.

The Executive includes the Leader of the Council, the Deputy Leader of the Council and six other Executive Members. Executive Members are held to account by a system of scrutiny committees which provide local accountability, openness and involvement in decision-making, aiming to improve results for people in North Somerset.

The Audit Committee monitors the effectiveness of the Council's overall governance arrangements including in relation to risk management, systems of internal control, and financial strategy. It monitors the adequacy of the Council's Annual Governance Statement, which provides an overview of the Council's governance arrangements and significant risks, assessing the quality and timeliness of progress in identifying and implementing any required improvements.

Senior officers led by our Chief Executive, include our Directors and Statutory Officers, and together form our Corporate Leadership Team (CLT). CLT works closely with the executive members to ensure a corporate approach to delivering the Council's vision, aims and objectives. The role of CLT is to:

- guide the strategic direction of the whole organisation
- help the organisation translate its policies into practice
- support managers and staff in the development and delivery of services

The Council employs around 1,700 staff, approximately 200 of these staff work in our maintained schools.

The presentation of the Council's budget monitoring and statutory accounts for 2021/22 is based on directorate and service structures which were updated in April 2021.

The Council's Corporate Plan

The Corporate Plan is a working document that exists to help Councillors, staff and partners work together to deliver the vision for North Somerset, which is to have an **Open, Fairer Greener North**

Narrative Report

Somerset. Its primary purpose is to set out our story and to share our priorities for North Somerset; to explain what we are doing and why we are doing it. The latest Plan, which covers the period 2020-2024 can be found at [Corporate Plan](#) . Progress against the plan is monitored quarterly.

Our Corporate Plan is the business plan for our organisation. Everything we do as a Council links back to this plan. It guides our work and explains why we focus on specific areas.

OUR VISION An open, fairer, greener North Somerset

Open
We will provide strong community leadership and work transparently with our residents, businesses and partners to deliver our ambition for North Somerset.

Fair
We aim to reduce inequalities and promote fairness and opportunity for everyone.

Green
We will lead our communities to protect and enhance our environment, tackle the climate emergency and drive sustainable development.

Our priorities

A thriving and sustainable place

- A great place for people to live, work and visit
- Welcoming, safe and clean neighbourhoods
- To be a carbon neutral council and area by 2030
- A transport network which promotes active, accessible and low carbon travel
- An attractive and vibrant place for business investment and sustainable growth
- A broad range of new homes to meet our growing need, with an emphasis on quality and affordability

A council which empowers and cares about people

- A commitment to protect the most vulnerable people in our communities
- An approach which enables young people and adults to lead independent and fulfilling lives
- A focus on tackling inequalities and improving outcomes
- Partnerships which enhance skills, learning and employment opportunities
- A collaborative way of working with partners and families to support children achieve their full potential

An open and enabling organisation

- Engage with and empower our communities
- Empower our staff and encourage continuous improvement and innovation
- Manage our resources and invest wisely
- Embrace new and emerging technology
- Make the best use of our data and information
- Provide professional, efficient and effective services
- Collaborate with partners to deliver the best outcomes

Our values

- We act with **INTEGRITY**
- We **RESPECT** each other
- We **INNOVATE**
- We **CARE**
- We **COLLABORATE**

The Plan recognises that we are living through a period of great change locally, nationally and indeed globally. Whilst the global economy grew in the last decade, the impact has been variable across our communities. Some of our residents have seen a fall in their living standards and we have responded by targeting our reducing resources on our most vulnerable residents.

We have reached a tipping point in tackling climate change, which this council is committed to address by not only declaring a climate emergency, but also developing an action plan, and whilst technology is transforming how we live, we also need to focus on shaping where we live as our High Streets change and the need for housing and employment land increases.

We want to maximise the things which make North Somerset such a great place to live whilst tackling the big and urgent issues, like climate change, reducing inequalities and how we engage more effectively with our residents.

Our Services

As noted above, the Council provides a wide range of statutory and discretionary services to the people of North Somerset. Although over the past two years the Covid-19 pandemic has impacted on our core business as usual service offer, significant efforts have been made to ensure that the vulnerable people within our communities continue to receive the support they needed.

Narrative Report

During this time the Council helped facilitate North Somerset Together, which is an online platform and call centre to bring focussed support for our residents together in one place. The NS Together offer has continued to evolve, and it is expected that it will help underpin and shape future service partnership models.

Covid-19 has had a widespread impact on the workforce of the Council and the way in which it delivers services. The Council utilised technology at the start of the pandemic which allowed many staff to work seamlessly from home with minimal disruption to services. For those services areas which could not work from home (whether provided directly, or through our contract partners), such as those engaged in refuse collection and highways services, working practices have been adapted to ensure their health and well-being throughout the last year. The Council published its Accommodation Strategy in February 2021 and is developing its agile working policy and practices. As a result, its two major office locations will be amalgamated into the Town Hall, releasing financial benefits in the future.

As the pandemic has continued to evolve and restrictions have now eased, many of the temporary measures have ceased, although the Council recognises the risk to services and the role that it will need to play in the future if Covid-19 rates rise again. There may be requirements for support to be provided in different ways or in different areas, almost certainly extending into future financial years, and potentially instigating permanent change and creating a new 'norm'.

2. Financial Context

Resources Overview

For many years local authorities have continued to deliver valued services to their communities within the wider context of national austerity, and this has been an extremely challenging period. Cost pressures, and the demand for our vital services continued to rise, at the same time as Central Government funding has been reduced. North Somerset, along with many others within local government, have risen to this challenge, and has introduced a series of strategies which seek to transform services by reviewing delivery mechanisms, increasing efficiencies and maximising the use of digital solutions wherever possible, enabling the Council to reduce costs and re-prioritise its resources.

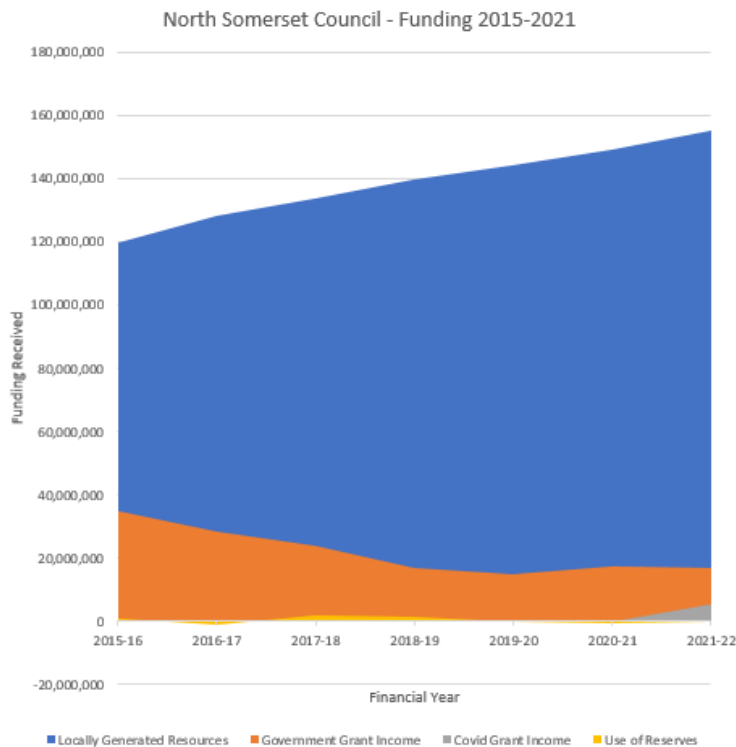
As a significant proportion of the Council's income is generated locally from council tax and business rates, the Council has sought to drive business and housing growth in the area to increase the amount of funding which it can use towards the existing budget, to meet growing demand pressures and fund the emerging priorities set out in the revised Corporate Plan.

The largest spending pressures within North Somerset's base budget remain unchanged and are linked to the costs of an aging and rising population and its associated funding, and the rising numbers of children requiring social care support and safeguarding, and with special educational needs.

As can be seen in the chart below, approximately £155m, or 88% of our funding received during the 2021/22 financial year, was raised locally through council tax, business rates and reserves, with just £22m, or 12%, from government grants.

At an overall level these proportions are broadly comparable to the previous financial year, as a further 'one-year roll-over' funding package was agreed by the Government as part of its Spending Review.

Narrative Report



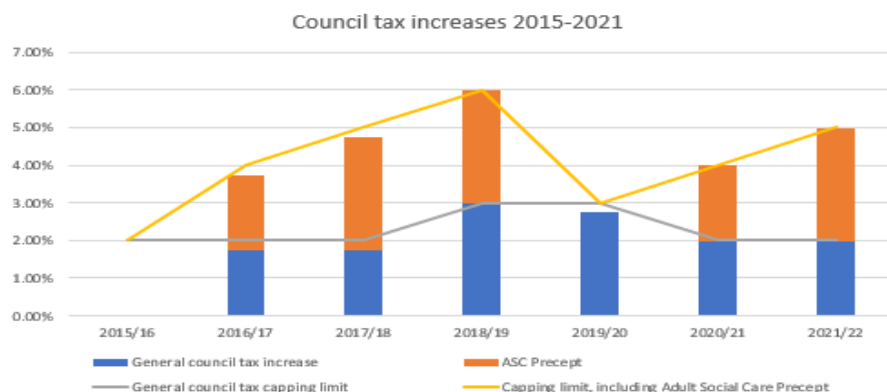
However, £5m of the grants allocated to the Council from the government for 2021/22, relates to funding for any ongoing Covid-19 pressures and will be one-off in nature, which means that the amount of money given by the Government for all other services, continues to make up a lower proportion of our total resources than in recent years.

Given the uncertainties in terms of the level of 'general' government grant the Council can expect to receive in the future, we recognise that making decisions in respect of setting levels of local taxation and also achieving economic growth from both residents and businesses is even more important

to ensuring the Council's future financial resilience.

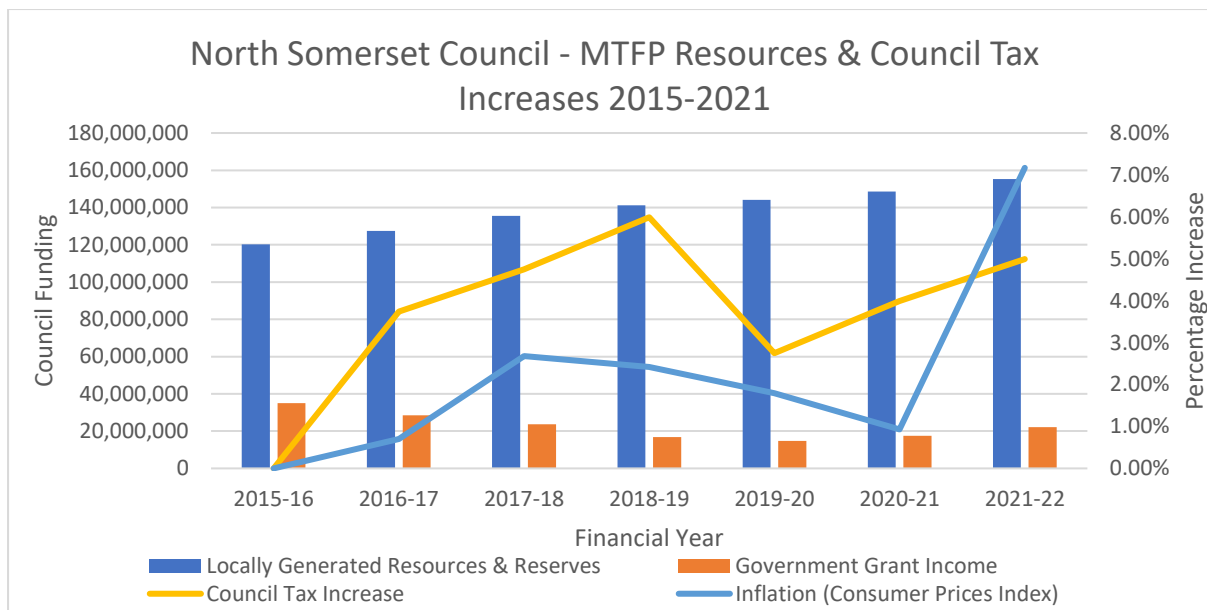
When setting the 2021/22 budget, the Council approved an increase of 1.99% on its base council tax levels to generate additional income and pay for services. The chart below shows that this was marginally below the Government capping limit of 2%.

The Council also approved a further 3% increase in respect of the Adult Social Care Precept, which was within Government parameters. Hence the total increase in council tax for the year was 4.99%.



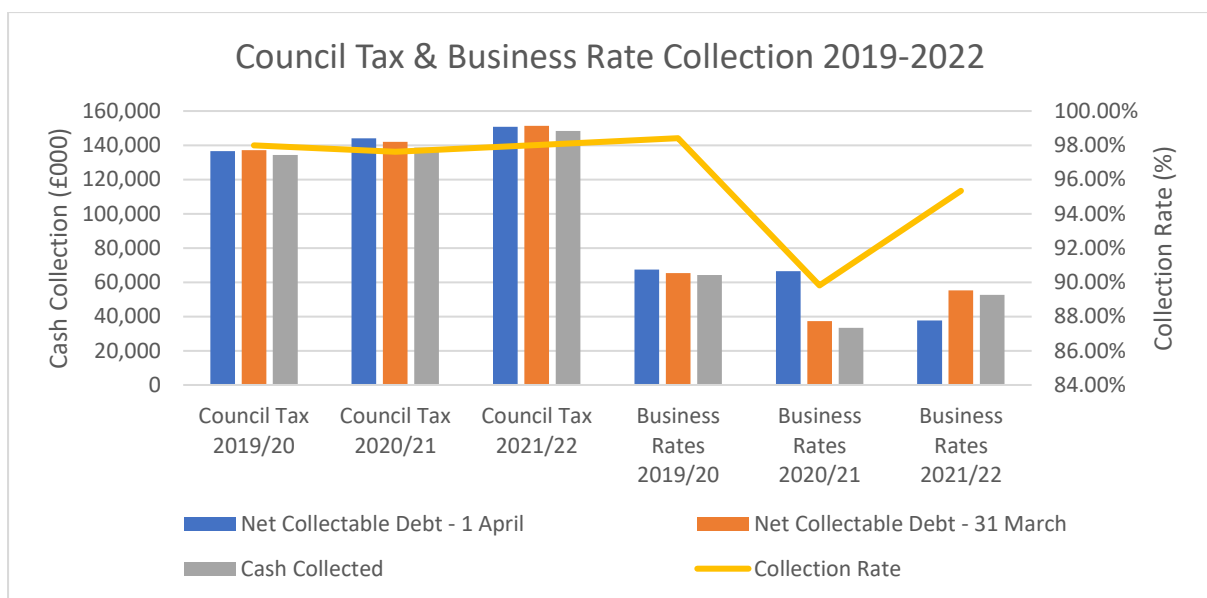
Council tax levels in North Somerset remain relatively low compared to other authorities in the South West. However, as can be seen from the chart below, whilst the increases that have been approved within recent years were within approved parameters, the majority of increases have been at levels that were higher than inflation (the Consumer Prices Index, or CPI) at that time. This largely relates to how local taxation is being used within Government policy, as the government does now allow councils to fund a proportion of their rising adult social care costs using from local taxpayers, through the Adult Social Care Precept, rather than these costs being fully funded at a national level, and through wider taxation.

Narrative Report



Collection rates for both council tax and business rates are important to the Council. Not only are they a measure of financial performance but, as noted above, they remain a key source of funding for our services. The Council is aware that any losses which occur as a result of poor collection, could impact on the budget in future years. Collection rates were relatively high before Covid-19 with both areas achieving around 98% of the net collectable debt, although it was recognised that performance in this area could be significantly impacted by Covid-19.

The graphic below illustrates the impact of Covid-19 on collection rates. It details the total cash sums collected by the Council in respect of in-year council tax and business rates, and a comparison to the net collectable debt due for the three years since 2019.



Whilst the collection rates for council tax remained relatively unchanged, the business rate income due to be collected by the Council at the end of the 2020/21 financial year was significantly lower than it was at the start of the year, a reduction of over £29m. The majority of this decrease relates to Government support packages in respect of Covid-19, which provided 100% relief for business rate liability for the year to businesses operating in the Retail, Hospitality and Leisure sectors. This policy

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continued into the 2021/22 financial year, although the amount of relief provided to these businesses reduced over time. The Government confirmed that councils would not be disadvantaged by this intervention, and has provided specific grants to cover the shortfall in income in both financial years.

Under current arrangements the Council's retained share of business rate income is 49%, 1% is allocated to the Fire Authority and the remaining 50% is retained by the Government meaning that the Council's share of the losses associated with granting business rate relief in 2021/22 was approximately £5.6m.

The underlying collection rate for business rates, which fell from 98.41% in 2019/20 to 89.81% in 2020/21, has increased to 95.34% at the end of the 2021/22 financial year and is more aligned to pre-Covid levels. Further activity will be undertaken with businesses to improve these rates.

Even before the impact of Covid, local authority services and associated funding in England has undergone considerable upheaval over recent years as the Government implemented a series of changes or provided only short-term funding settlements. These continue to have a significant impact on our finances although some further planned changes to our funding levels, previously announced by the Government, have continued to be delayed by more pressing national issues.

Whilst the Council has undertaken a range of modelling to assess what these changes could mean in the future, specific financial impacts regarding potential changes to the budget cannot be brought into the Council's own financial planning forecasts until more details, including implementation timescales, are shared and confirmed. The proposed changes previously considered by the Government, and which may feature in future years, include;

- Changes to the retention shares of business rates revenues to fund local services, which could see an increase from the current position of 49% retention and move towards local government retaining 75% of business rate income.
- Further changes to the operational management of the national business rates system, in an effort to simplify some of the complexities and volatilities although specific details and timescales are not yet known.
- Implementation of the Fair Funding Review, also now described as the Levelling Up agenda, which would affect how funding is allocated and redistributed between local authorities. Initial consultation exercises previously showed that the Fair Funding Review could potentially move to a flatter distribution, with three main 'cost drivers' being population, deprivation and sparsity, together with additional cost drivers related to specific local authority services, rather than the existing complex series of formulae. However, the Government have since made a series of statements which indicate that the original modelling scenarios may change and the Review be instead used to focus on delivering broader Levelling Up outcomes across the country.

The Council's financial modelling will continue to be reviewed and updated in light of further Government announcements to fully understand the impacts on our available resources. These will largely be centred around the Comprehensive Spending Review covering the period 2022 to 2025, which is the Government's way of informing councils on the likely levels of funding which it can expect to receive in the future.

After several years of single-year settlements the Council recognises that Spending Reviews covering a multi-year period, can reduce risk by providing a greater degree of certainty to support our

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financial planning and enable informed decisions to be made to support service delivery and shape investment priorities in a timely and considered manner. However, they may not provide required levels of flexibility should material assumptions change during the period.

Although only one-year funding settlements have been provided between 2019 and 2021, the Council has developed a strong strategic approach to its revenue budget and financial planning considerations, and incorporated a range of scenarios into its latest modelling. It will continue to focus on both the internal and external financial challenges and opportunities faced to ensure that the Council fully understands its current and future financial position, and has strategies and mitigations available to respond when required.

Risks and Opportunities

The Council has an embedded process to manage risks and assist the achievement of its objectives, alongside the monitoring of national and local performance targets. The Corporate Risk Register, and the underlying risk strategy, plays an integral role in the management of risk and is subject to review by both the Corporate Leadership Team (CLT) and the Audit Committee.

Business as usual risks identified at the strategic level include uncertainties in relation to increased levels of demand for our services whilst maintaining ongoing service provision, for example in relation to:

- safeguarding children and vulnerable adults,
- continuing the transformational activity to support customers and clients of the Council, and
- monitoring the availability, quality and affordability of key resources that the Council depends on to deliver services in the future, such as delivering sustainable solutions to the support our housing needs, or providing economic growth within the local area.

The Corporate Risk Register is a live document which is updated throughout the year by both CLT and the Executive. It still includes the impacts of Covid-19 as a core risk, even though many of the previous restrictions have been removed by the Government. Material risks, including those to partnerships and projects, are reviewed by scrutiny panels or included within the Annual Governance Statement (AGS) where necessary.

The underlying risks associated with the Covid-19 pandemic continue to feed into all areas of strategic decision-making, for both ongoing service delivery and future business planning. Regular updates detailing the impacts of the pandemic over the course of the 2021/22 financial year have been shared within budget monitoring reports presented to the Executive. As we transition through the recovery and renewal phases of the pandemic, the Council is focused upon understanding any long-term impacts on its services, particularly in relation to health and social care delivery and its workforce.

Whilst there are no new significant service-related issues raised in the 2021/22 Annual Governance Statement, the uncertainties surrounding the ongoing long-term impact of the Covid pandemic together with the longer-term funding solution for local government, and specifically the ongoing reduction in the level of public sector funding, alongside the increasing demand on the Council's services, remain major risks that the Council faces.

3. Performance during the 2021/22 financial year

Monitoring the revenue budget in 2021/22 – introduction and context

In line with good financial governance, all aspects of the Council's operational revenue budget are monitored throughout the financial year, with reports being considered by the Council's Executive

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on a regular basis. All such budget monitoring reports can be found on the Council's website, see link [Minutes](#) .

Monitoring focuses on the forecast income and expenditure positions compared to the approved budgets set for the year, taking care to highlight and report any areas where there are material exceptions to the approved budget or agreed spending plans. The reports also advise on any decisions or interventions that may be required to ensure that the Council can balance its budget by the end of the financial year, as well as the consequential impact on the Council's reserves and balances should any surpluses or deficits arise.

The reports for 2021/22 continued to consider and include Covid-19 as a key risk, recognising that the financial impacts for the Council would be ongoing even though many Government restrictions were lifted for individuals and businesses during the year.

Monitoring the revenue budget in 2021/22 – income and resources

The Council's net revenue budget is primarily funded from two main sources, local taxation and government grants, and reserves are often used to smooth impacts across financial years.

At the start of the financial year almost £146m, or 83% of the Council's total income resources were expected to come from council tax and business rates, with the balance from government grants and reserves.

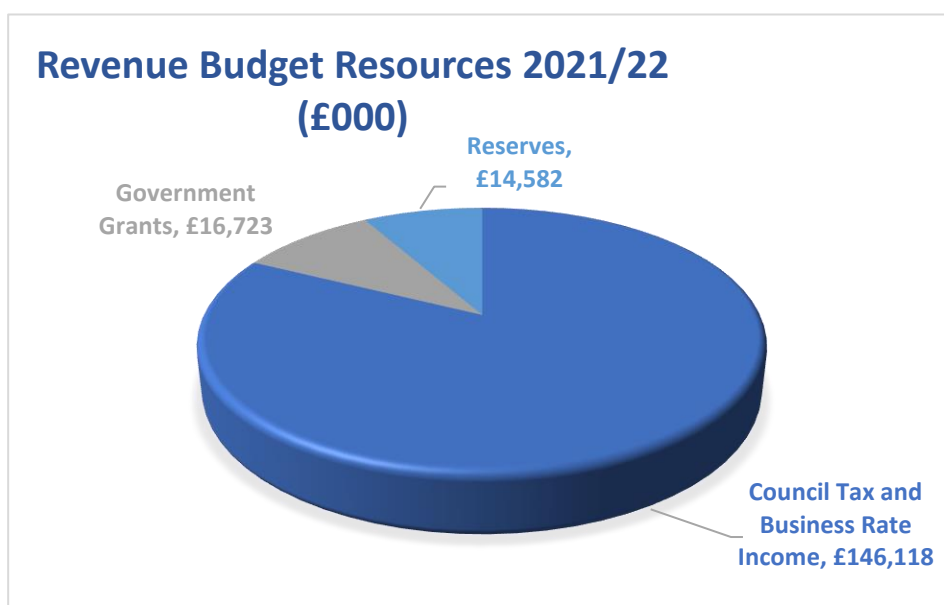
The proportion of income from local taxation sources is usually much higher than the 83% budgeted for 2021/22. However, the budget reflected a

contribution from the Smoothing Reserve of over £14m, in respect of prior year Covid impacts, notably the funding given to the Council for its share of relief given to businesses in the retail, hospitality and leisure sectors during the previous financial year.

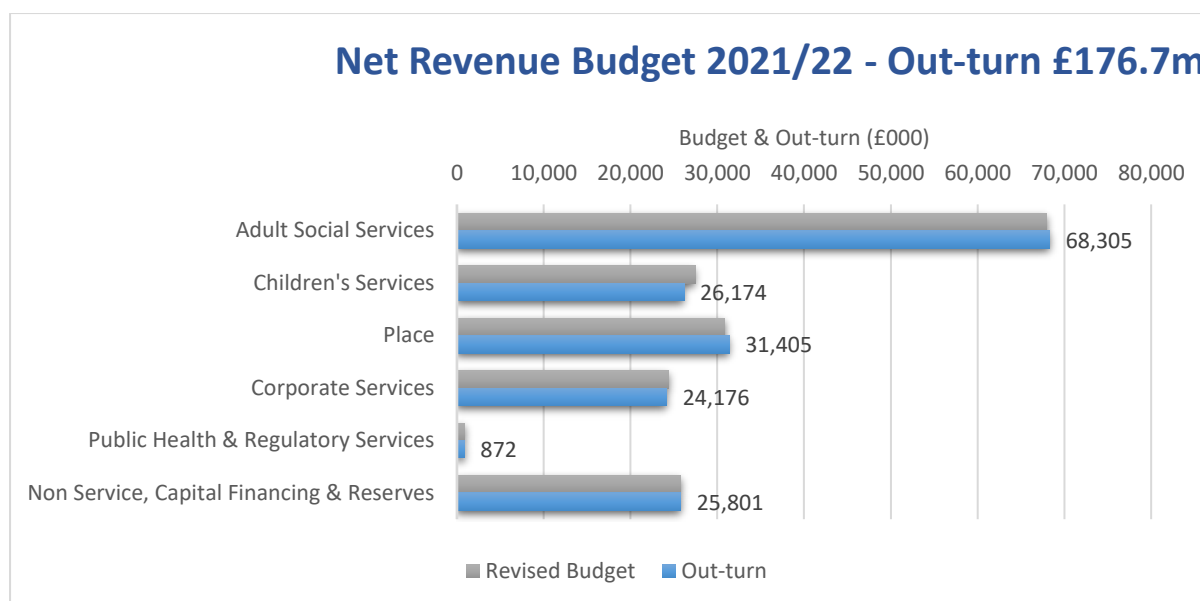
The final out-turn position for 'resources' shows that the total income for the year was £177m, which is the same amount as the budget.

Monitoring the revenue budget in 2021/22 – revenue expenditure

The chart below shows the Council's budgeted and actual spending plans for the year across each of its directorates. The final out-turn position achieved by the Council for all of its services was net expenditure of £176.7m, which is £0.691m lower than the approved budget for the year, and means that, at an overall level, the Council was able to contribute £0.691m into its General Revenue Reserve at the year-end.



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Although the overall out-turn position for the Council was an underspend of £0.691m, as in previous years, the Council continued to face cost pressures within several areas of the budget, notably the adult social care placement budgets, which were overspent by £2.2m at the year-end, and home to school transport budgets, which were overspent by £0.96m. Understanding the reasons for any areas of overspending is important so that we can assess any potential impacts that may continue into future years.

The main drivers of the overspend for Adult Social Care relate to increased complexity and package size, rather than increased numbers of long-term care packages. Indeed, the average number of long-term care packages was 4.2% lower than in 2020/21, with a continuation in the shift from residential care to more care in the community. The one material area where package numbers have increased is in supported living (from an average of 240 in 2019/20 and 263 in 2020/21 to an average of 281 in 2021/22). This is an expected rise, which is particularly associated with bringing forward new schemes as a more cost-effective alternative to residential placements, predominantly to support the increasing number of younger adults with learning difficulties.

Monitoring shows that increases in package size likely reflect deterioration and deconditioning (partly due to delays in elective surgery and other treatments and lock-down or isolation), earlier hospital discharge, increases in mental health support needs, and family or carer breakdown. The average weekly unit cost of a long-term care package increased by approximately 7% in 2021/22, with only around 2% of that reflecting price inflation as opposed to package size.

In addition, we have seen falls in levels of client income, especially in residential care. This is due to a change in the mix of care (client contributions cannot increase beyond the maximum charge even when the package size increases), a reduction in income from property debt and an increase in debt write off and provision for credit losses.

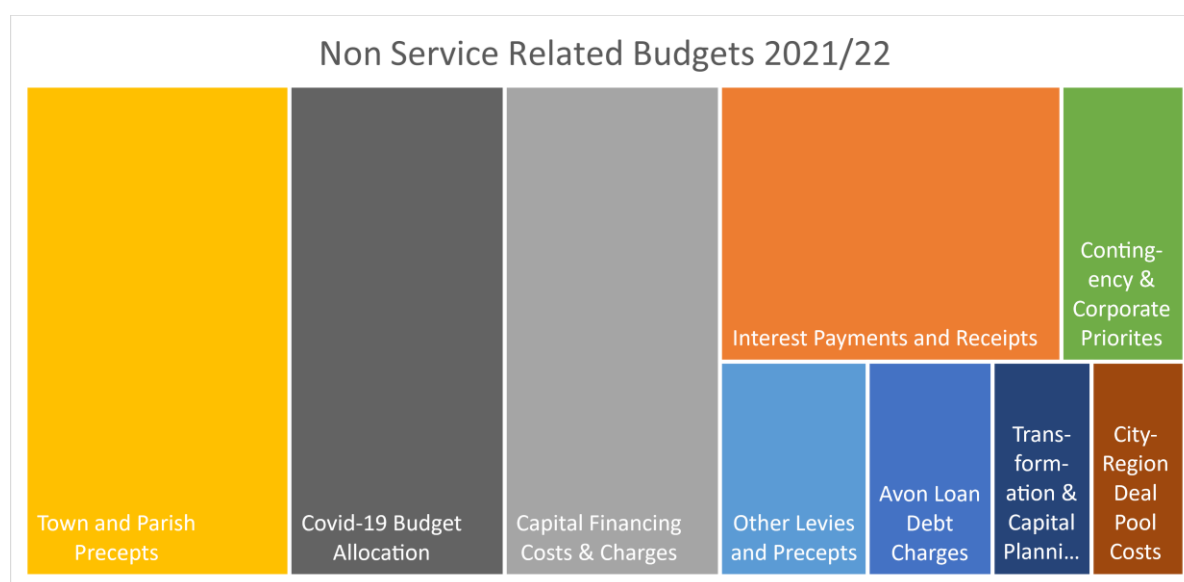
There have also been increases in the number of short-term residential and nursing placements, which may reflect changes in hospital discharge processes, increased respite or rehabilitation use, a lack of capacity to secure long-term placements, and breakdown in carers' arrangements. Given that much of this spending will continue into future years, the Council has increased provision within the 2022/23 Adult Social Care budget to ensure that it has a sustainable base to deliver from.

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Much of the Council's revenue spending in 2021/22 has been discharged on business-as-usual services and activities, although during the year some of the expenditure charged to the revenue budget has also included Covid-19 related activities, pressures and impacts. Some of the Covid spending is directly attributable to the grant funding provided by the Government to support businesses, social care and leisure providers, or to develop and maintain policies and plans which actively contain Covid out-breaks and manage their spread to prevent the virus from spreading and harming more people. The table below shows Covid-19 related grant income that has been reflected within the revenue budget during the year.

	Specific Grants £000	General Grant £000	Sales, Fees & Charges £000	Furlough Grant £000	Total Grant Income £000
Adult Social Services	7,460	0	0	0	7,460
Children's Services	1,174	0	56	3	1,233
Corporate Services	1,292	0	144	0	1,436
Place	3,193	0	306	5	3,504
Public Health & Regulatory Services	7,223	0	0	0	7,223
Non Service Budgets	260	4,975	1	0	5,236
Resources - Council Tax Support	1,923	0	0	0	1,923
Total Covid Grant Income with the revenue budget	22,525	4,975	507	8	28,015

Whilst most of the Council's spending is allocated to specific directorates, an element of the budget covers functions that do not directly correspond to a front-line service or which are outside of daily spending decisions. The graphic below shows the relative values of the component parts of the Council's £26.8m 'non-service' budgets at the start of the year, with the largest areas of spending being allocated to town and parish council precepts (£6m), Covid-19 (£5m), capital financing costs (£5m) and interest payments (£4m). The Council's budget includes a Contingency provision of £1.3m which can be used to fund unexpected or unplanned pressures.



The budget monitoring reports presented to Members during the year do not include the statutory or technical accounting adjustments required for inclusion within the Comprehensive Income and Expenditure Statement, which provides an overall summary of the Council's income and expenditure at the end of the financial year, in accordance with proper accounting practice.

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However, the monitoring reports do include amounts transferred to or from the Council's usable reserves, as Members make decisions regarding the planned use of such resources, and so need to understand the financial impacts of these decisions.

A reconciliation table has been included in Note 10 to show how the revenue out-turn position reported to Members reconciles to the financial performance reported in the Comprehensive Income and Expenditure Statement (CIES). The transfers to and from reserves are separately included within the Movement in Reserves, rather than the CIES.

Monitoring the capital budget in 2021/22

Capital expenditure relates to amounts which are paid to acquire or improve assets such as land or buildings, vehicles, equipment and roads, which are expected to have a life of more than one year. During the year the Council spent over £45m on capital projects across its service areas, including £31m on schemes delivered by the Place directorate and £8m on schools and educational facilities. Specific projects include;

- £4m on the completion of the Weston Transport Enhancement Scheme which has improved the traffic flow around the town centre and created a central bus hub,
- £4m on the start on the Banwell By-Pass project,
- over £5m on the MetroWest Rail project in Portishead, and
- over £6m on the creation of the Winterstoke Hundred Academy Expansion scheme, which will deliver additional secondary school places in Weston-super-Mare.

Capital expenditure was funded by receipts from the sale of assets (£2m), contributions from the revenue budget and reserves (£2m), grants and contributions (£36m) and borrowing (£5m).

Balance Sheet

Despite some areas within the revenue budget resulting in overspends, and the growing budget pressures likely to be faced in the future, the Council maintained a Balance Sheet with a positive net worth of £89.8 million at the year end, which is a significant increase compared to the previous year.

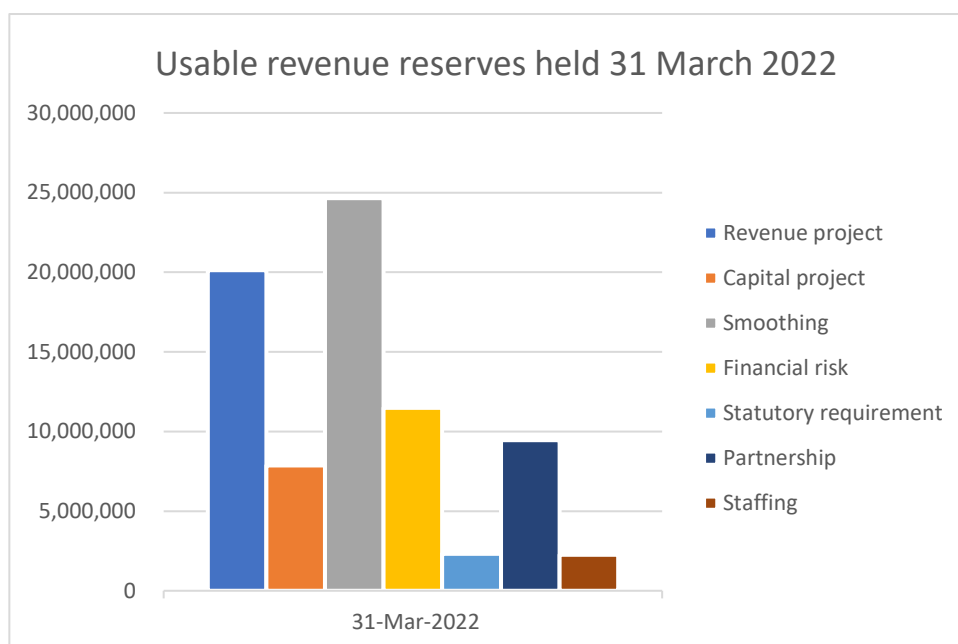
	2020/21 £000	2021/22 £000
Non-current assets	442,744	452,139
Net current assets - debtors, stock and cash less short-term creditors and liabilities	57,674	76,130
Long-term liabilities and provisions	(478,377)	(438,461)
Net Assets	22,041	89,808
<u>Represented by:</u>		
Usable Reserves	(101,344)	(120,542)
Unusable Reserves	79,303	30,734
Total Reserves	(22,041)	(89,808)

The total reserves held by the Council is net of £30.7m 'unusable' reserves (such as the deficit on the Pensions Reserve and the Dedicated Schools Reserve), which are technical adjustment accounts operated by the Council, rather than cash monies available to spend.

The financial impact of Covid-19 on the Council's Balance Sheet can still be seen, most notably within the usable reserves balance, which has increased to £120m at the end of the financial year. A large proportion of this increase relates to the unspent balance of the general Covid grant and to smoothing impacts across financial years. An example is the accounting requirements for Business Rates and the receipt of a government grant being recognised in 2021/22, which was provided to fund the associated income losses, which will be realised in a future financial year.

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Within usable reserves, the Council has separated its earmarked reserves into sums allocated to directorate priorities and those sums managed on a corporate basis to cover financial risks and strategic priorities. The Council has processes to ensure such reserves are regularly reviewed. The on-going review will utilise available reserves to mitigate any sustained Covid-19 impacts where appropriate.



Held within usable reserves is the Council's **General Fund balance**, which is the reserve the Council uses to cover immediate or unplanned financial risks. At the year-end, the balance was maintained at **£9.744m**, which equates to approximately 5.49% of the original 2021/22 net revenue budget, a level deemed prudent by the Section 151 Officer.

However, whilst this assessment is considered robust at the end of the financial year, the economic issues that have begun to emerge over recent months, particularly rising inflation and the impact on the costs of goods and services, indicate that reserve levels need to be reviewed on an on-going basis.

As noted above, risks and uncertainties are captured within the relevant risk registers.

Collection Fund

The Collection Fund Adjustment Account is the reserve established to account for the Council's share of any surpluses or deficits arising from both the in-year performance of its council tax and business rates income and expenditure and any movements over prior year estimated sums. It is classed as an 'unusable' reserve within the Balance Sheet, as the funds cannot be accessed at the end of the year, but will be transferred into the General Fund in a subsequent financial period.

At the end of the year the reserve shows a net deficit of 4.547m in respect of the Council's ongoing council tax and business rate activities. The majority of the deficit relates to business rate activities, and was generated following the Government's decision to continue to provide some relief to those businesses operating within the retail, hospitality and leisure sectors during 2021/22. As noted elsewhere within the report, the Government has provided grant funding to cover these Covid-related income losses, which was recognised within the Comprehensive Income and Expenditure Statement, and transferred into an earmarked reserve at the year-end, so that that it can be held and used to offset the deficit in subsequent years.

In 2020/21 the Government recognised the impact of the Covid-19 pandemic on the collection fund across local government as a whole, and established a framework to provide a mix of financial support which enables councils to spread Covid-related losses over a three-year period, and provides a local tax income guarantee grant to cover eventual losses. This support will continue into 2022/23.

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Treasury management, borrowing and cash-flows

The Treasury Management Strategy is reviewed annually, and its main purposes are to:

- manage cash flows – ensuring cash is available when needed and investing surplus balances in a low risk way
- fund capital plans - capital plans often require longer term cash flow planning which may involve arranging loans or using longer term cash flow surpluses

The Strategy provides the framework within which authority is delegated to the Director of Corporate Services to make decisions on the management of the Council's debt and investment of surplus funds. The Strategies for 2021/22 and 2022/23 were presented to the Executive in February 2021 and 2022, and can be found on the Council's website in the relevant minutes.

The overarching investment strategy is to continue to hold a diverse portfolio of investments (notably short-term unsecured bank and building society investments) and/or higher yielding asset classes in order to spread risk. In previous years the Council has invested monies in longer-term investments such as the Churches, Charities and Local Authorities (CCLA) Property Fund and multi asset funds, which have provided higher yields than traditional cash-based investments, and this has continued throughout 2021/22. Performance and risks continue to be kept under review to determine whether the strategy needs to be revised.

During the emergency phase of the pandemic the Council's investment strategy focused almost entirely on immediate liquidity type issues, as the Council managed the high volume and value of Covid related grant receipts and payments. In an environment of very low interest rates that did not present a significant issue. Investment returns remained low for most of 2021/22 and there remained volatility and uncertainty over the levels of cash-flows managed by the Council, as various Covid support and funding packages continued to be received at short notice. However, interest rates increased towards the end of the year, along with inflation. As Covid impacts appear to be receding, the Council will now focus efforts on improving the returns from its investment decisions within the risk parameters set within the strategy, which may alleviate some of the potential inflationary pressures on costs that it may face within the revenue budget.

Further information relating to investments and their performance can be found within the Financial Instruments note and the Financial Performance section of the Narrative Report.

Whilst an element of the Council's capital programme generated a borrowing requirement, this was largely financed internally by utilising short-term cash balances and non-material interest free borrowing from Salix Finance Ltd, who provide Government funding to the public sector to improve energy efficiency, reduce carbon emissions and lower energy bills. As a result, no new long-term borrowing was taken with the Public Works Loan Board during the year. Given the current environment of low but increasing interest rates, we will continue to manage cash balances whilst considering the need to incur further external borrowing over the next few years.

Pension assets and liabilities

The deficit within the accounts relating to employees' pension funds is £266.0m as at 31 March 2022, which is a net reduction of £32.9m from the opening balance deficit of £298.9m. This balance reflects the value of pension liabilities which the Council is required to pay in the future as they fall due, offset by the value of assets invested by the pension fund. Each year the Council incurs a cost within its revenue budget that covers the future service cost for those employees within the pension fund, which is converted into a % of pensionable pay, as well as a financial contribution in respect of a past service deficit position. These values are reviewed every three years as part of the Pension

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Fund Triennial Review. This review is next due in 2022/23, and will influence the Council's future employer's pension contributions.

Financial performance outputs

One important way in which we measure and monitor outputs is by reference to activity and unit cost data. This is particularly relevant to key council spend areas such as adults' and children's social care, and waste. The 2021/22 out-turn data indicates summary information in these areas.

Adult Social Care

The table below illustrates the average number of adult social care clients supported during 2020/21 and 2021/22, together with the average weekly unit cost. The data can usefully either be split by the type of care received or in accordance with the clients' primary support reason. The cost information is shown gross, before any client contributions.

Adult Social Care Packages	Average number of clients 2020/21	Equivalent Gross Expenditure 2020/21 £	Average Weekly Unit Cost 2020/21 £	Average number of clients 2021/22	Equivalent Gross Expenditure 2021/22 £	Average weekly unit cost 2021/22 £
By Care Type:						
Residential	705	20,573,455	559.33	669	20,146,497	577.53
Residential Extra Support Need (ESN)	263	11,674,908	850.80	260	11,738,464	864.74
Nursing	308	10,272,233	640.31	306	10,573,706	663.41
Nursing Extra Support Need (ESN)	55	1,566,139	551.11	61	1,591,732	503.18
Homecare	924	9,645,252	200.28	875	10,233,584	224.21
Supported Living	263	9,624,542	701.82	281	11,297,927	770.62
Direct Payment	319	8,244,322	495.12	300	8,229,029	525.91
Day Care	226	1,698,525	144.24	178	1,426,332	153.32
Extra Care Housing	125	1,578,488	242.66	120	1,531,678	245.81
Shared Lives	47	1,236,913	503.82	48	1,264,931	503.64
Short term Care	70	1,961,546	494.47	103	3,042,474	541.54
Total	3,304	78,076,320	453.16	3,201	81,076,355	485.79
By Primary Support Reason:						
Physical Support	1,632	32,508,823	382.08	1,561	32,958,098	404.98
Learning Disability	972	29,228,250	576.93	959	31,128,415	622.83
Mental Health	368	9,402,739	490.24	347	9,383,270	517.97
Memory & Cognition	234	5,277,688	432.55	241	5,896,021	470.00
Other	99	1,658,820	320.37	94	1,710,551	367.76
Total	3,304	78,076,321	453.13	3,201	81,076,355	485.79

In broad terms, it can be seen that nursing and residential care is more expensive per head than non-residential or community-based services. The Council's strategy is to maximise independence and, where appropriate, ensure that people can remain in non-residential services for as long as possible. It is also interesting to note that spend on adults with learning disabilities and mental health conditions, where unit costs are higher, now outweighs the spend on adults with physical support or memory and cognition needs. This is also reflected in the fact that spend on adults aged under 65 now exceeds spend on adults aged over 65 (spend before client contributions for adults aged under 65 accounts for 53% of the total spend, and this rises to 59% once client contributions are taken into account.)

The 2021/22 year saw an overall fall of 3.1% in the number of placements supported by the Council. However, average unit costs rose by an average of 7.2%, which is higher than simple price inflation given that the Council passed on an average 2% price uplift to providers in 2021/22. The increase in unit costs is reflective of the Council supporting people with increased complexity of need, likely driven by factors such as deterioration and de-conditioning (partly due to delays in elective surgery and other treatments, and lock-down or isolation), earlier hospital discharge, increases in mental

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health support needs, and family or carer breakdown. It is also interesting to note that as the size of care packages rise, the proportion that is recovered in client contributions falls, which increases overall costs further.

The last year has also continued to be financially challenging for our adult social care providers and the Council has provided around £8m of additional payments for grants relating to infection control, testing, workforce capacity, and nursing and insurance, in order to support them with exceptional additional costs, mostly funded by government grants. The reduction in the number of placements in care homes means that some homes are operating at capacity levels significantly below those in 2019/20, which is not sustainable in the medium-term. The Council recognises these challenges and continues to provide as much support as is possible through a combination of monies set-aside to deliver recovery packages and a grant from the NHS to support the implementation Technology Enabled Care (TEC).

The Government's Social Care reforms will seek to address a number of issues in the social care system. The main areas are as follows:

- Making sure that people do not face unexpected or excessive care costs, through the implementation of the Cap of Care Costs and changes to the capital allowance limits
- Extending the duties covered by section 18(3) of the Care Act to allow self-funders to request that the local authority arranges their care at the rate that the local authority commissions care
- Moving towards local authorities paying a "Fair Cost of Care" to providers

The Council remains concerned about the extent to which the Government will provide sufficient funding for local authorities to be able to implement these changes. In addition, it should be noted that the funding that is being provided for these reforms will not contribute towards the pressures being felt in the system now, due to increasing demand and costs.

During and since the pandemic, the Council has worked closer than ever with its partners in the NHS, implementing a new "Discharge to Assess" model for hospital discharge. This is designed to reduce the time people spend in hospital when they no longer need acute care, but to ensure that they have access to appropriate health and social care rehabilitation and reablement services, and that their assessment for longer-term care and support needs is undertaken in the most appropriate setting and time for the person. A joint business case has identified on-going funding for Council services in North Somerset, which will support delivery of the model. This includes a new reablement service to help people to retain or regain their skills, confidence and independence following a hospital stay. The service is expected to be extended to community referrals to help people remain independent in their own homes for longer.

The Council's challenges for 2022/23 are to continue to ensure sufficiency in the care market and to respond to the expected increases in demand for care services, whilst delivering against our Maximising Independence Transformation Programme, and delivering the Government's proposals on social care reform.

[Looked After Children](#)

The table below illustrates the number of children's placements made during the year, together with the average annual unit cost of each type of placement.

For the second year in a row, 2021/22 has seen a reduction in spend on children's placements. In 2021/22 the reduction in spend was an unprecedented 16%, following on from an 8% reduction in the previous year. In 2021/22, the fall in spend partly relates to an overall reduction in the number

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of children looked after (shown in the table below) but also a shift away from residential, supported living and independent foster care to local in-house fostering, housing with support, kinship and special guardianship. This is due to improved commissioning arrangements and a focus on permanency planning. The average unit cost of a placement has reduced from £35,202 per annum to £28,365 per annum (19%).

Children's Placements	Average Number of Clients 2020/21	Gross Expenditure 2020/21 £	Average Annual Unit Cost 2020/21 £	Average number of clients 2021/22	Gross Expenditure 2021/22 £	Average annual unit cost 2021/22 £
By Care Type:						
In-house Foster Placements	74	1,204,017	16,235	80	1,220,926	15,229
Independent Foster Agency Placements	52	2,197,614	42,466	43	1,840,632	42,726
Residential Placements	12	2,489,397	207,623	13	2,567,853	200,457
Supported Independent Living	10	2,115,739	205,013	3	526,213	168,658
Housing with Support	0	0	0	14	412,263	28,931
Kinship	41	547,392	13,328	26	364,244	13,876
Special Guardianship	74	560,846	7,549	96	854,790	8,904
Parent and Baby	2	240,250	110,207	0	40,148	154,415
Total	266	9,355,255	35,202	276	7,827,069	28,365

North Somerset has bucked the national trend as it experienced a reduction in the number of looked after children. We now have a rate per 10,000 that is in the lower quartile of all Councils in England. Whilst it is important to note that the 2022/23 budget setting process has taken into account the reduced numbers, there is some concern that this may not be able to be sustained. This has been captured within our risk register. It is also worth noting that it is not just overall numbers that influence costs. Exceptional individual placements can cost in excess of £500,000 per annum and this has the potential to impact significantly by driving spend that is in excess of estimates.

Waste Disposal and Processing

The table below shows the weight and unit cost of waste that was sent to landfill or for other processing in 2021/22 and compares this to the 2020/21 activity.

Children's Placements	Number of Tonnes 2020/21	Gross Expenditure 2020/21 £	Weighted Average Cost per Tonne 2020/21 £	Number of Tonnes 2021/22	Gross Expenditure 2021/22 £	Weighted Average Cost per Tonne 2021/22 £
By Waste Type:						
Residual Waste - Landfill	11,237	1,174,981	116.24	11,381	1,309,419	119.34
Residual Waste - Treatment	30,794	3,525,559	110.57	31,077	3,455,467	105.03
Food Waste - Treatment	7,908	459,218	58.07	7,411	441,992	59.64
Garden Waste - Treatment	19,213	424,415	22.09	16,214	424,415	22.64
Total	69,152	5,584,173	80.75	66,083	5,631,293	85.22

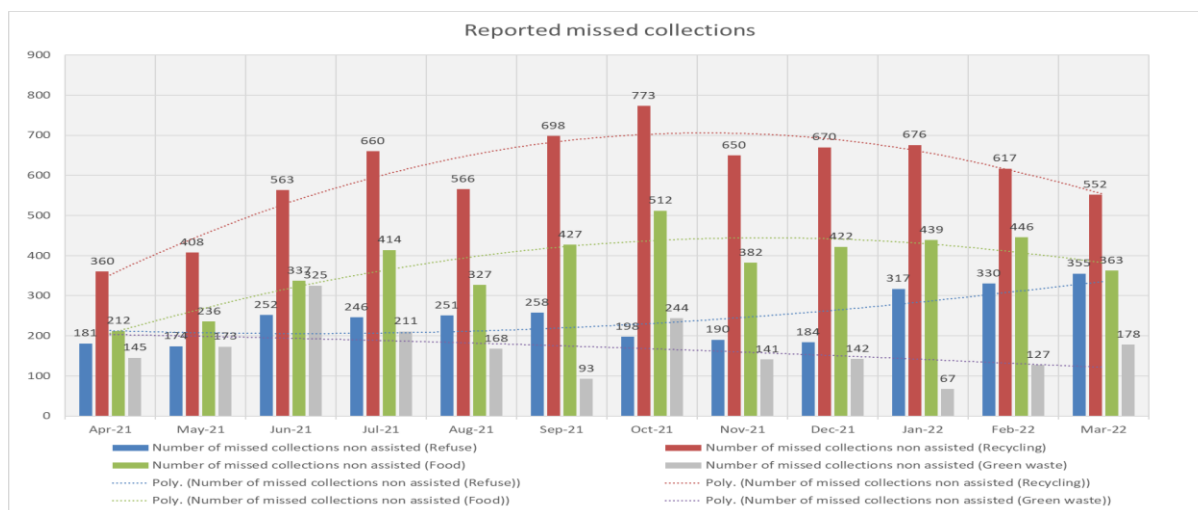
In 2020/21 a decision was made to terminate the existing waste collection contract early and to deliver the waste services through a local authority trading company. The North Somerset Environment Company Limited (NSEC) was formed at the end of March 2021 and has been delivering the waste services throughout 2021/22. This change in arrangements had minimal impact on the net expenditure for the year, as the Council has made managed use of reserves to smooth the financial impacts of the transition.

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The first full year of operation has seen a number of challenges for the company, such as Covid related staff shortages, the HGV driver shortage, increased waste volumes and high inflation, and this has impacted on their financial performance. The Council decided to reduce the garden waste service to maintain collections of residual waste and recycling.

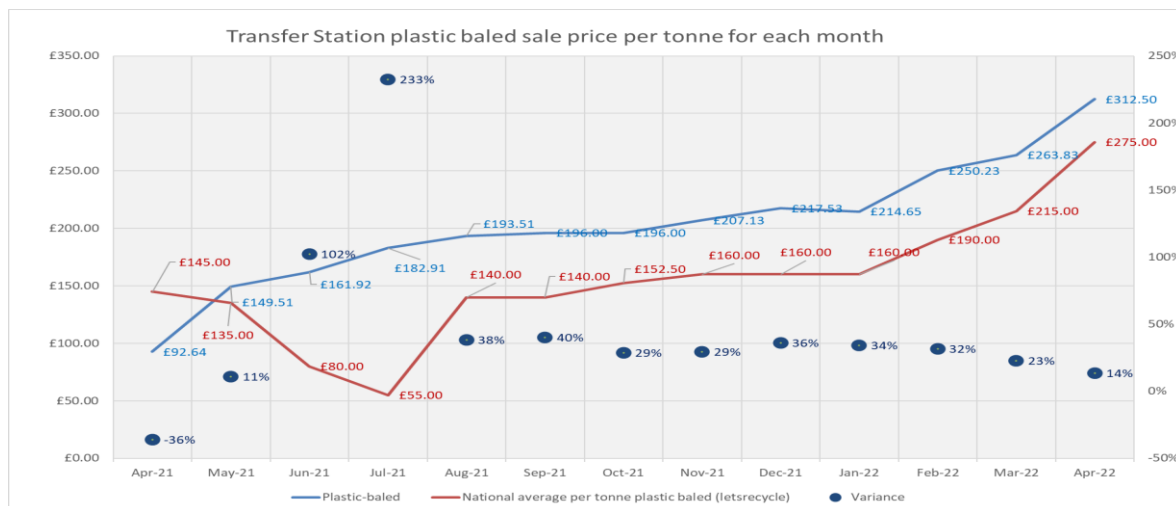
NSEC has dealt with these operational difficulties, and delivered the best possible service under the circumstances. This can be seen in the key performance indicators (KPIs) reported to the Council. Two of the key areas monitored are collection performance and sale of recycling materials performance.

The graph below shows the collection performance during 2021/22. The number of missed collections increased between June to October, which was the period when staffing levels were low due to Covid isolation absences and driver shortages. The absence levels decreased through the remainder of the year, and performance improved, with 99.85% of collections completed in March 2022. To increase HGV driver numbers, NSEC carried out a number of targeted recruitment campaigns, as well as offering HGV training to a number of employees. This has helped stabilise the workforce, and is something NSEC will continue to focus on moving forwards.



The Council also monitor NSEC performance on recycling materials income. NSEC disposes of recycling materials on behalf of the Council, and the net sales proceeds are passed back to the Council. Each type of material is monitored against the national average. This is an area where NSEC has performed particularly well, maximising income for the Council. The graph below shows an example of materials handled by NSEC compared to the national average, and demonstrates their high performance:

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A shareholder function has been established for governance arrangements over the company, largely to deal with reserved matters, to approve the business plan and for formal reporting from the company’s board. The Council and NSEC are currently undergoing a recruitment process for Non-Executive Directors, which will help reduce the risk of any potential conflict of interest with the existing council officers who sit on the board.

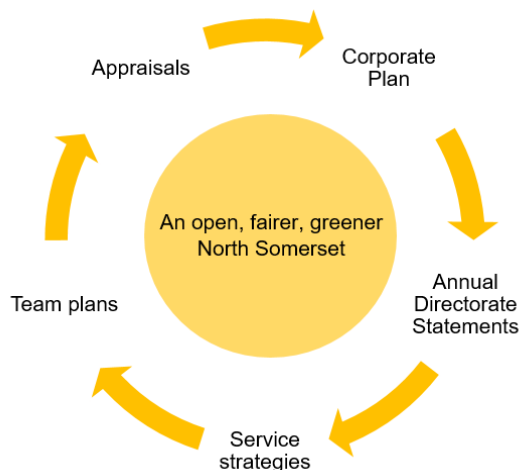
The company produces its own accounts, which are subject to an independent external audit. In 2021/22 the company’s accounts have been consolidated into the Council’s accounts for the first time. In this financial year NSEC made an operational loss. Hence financial performance will need to be closely monitored moving into 2022/23. The company is facing a number of challenges relating to inflation, some of which will be met through increases in the contract sum paid by the Council, and funded through the medium term financial plan. The company is putting measures in place, including departmental budgets, to help bring costs back to within their existing budget.

Non-financial performance monitoring

The Council gathers information and data from across the organisation to ensure that it is effectively and efficiently monitoring its own performance in an open and transparent manner. This is undertaken by the Business Intelligence team. They utilise the Performance Management Framework, which was recently shared with the Audit Committee, and brings together both national and local statistics and compares these to inputs, activities and outputs within the Council.

The services we provide have an impact on every resident and business in the area. We have a clear and comprehensive mechanism for business planning within the Council. The key components of the business planning process are illustrated in the graphic below. Our business planning process utilises Annual Directorate Statements (ADS) which set out how we are going to achieve the ambitions and outcomes we have identified within the Corporate Plan, and the resources and skills each directorate, service and team need to do this. Service strategies, team plans and individual appraisals ensure that all staff are clear what their priorities are, and how they are helping to contribute to the delivery of Corporate Plan aims and objectives.

Narrative Report

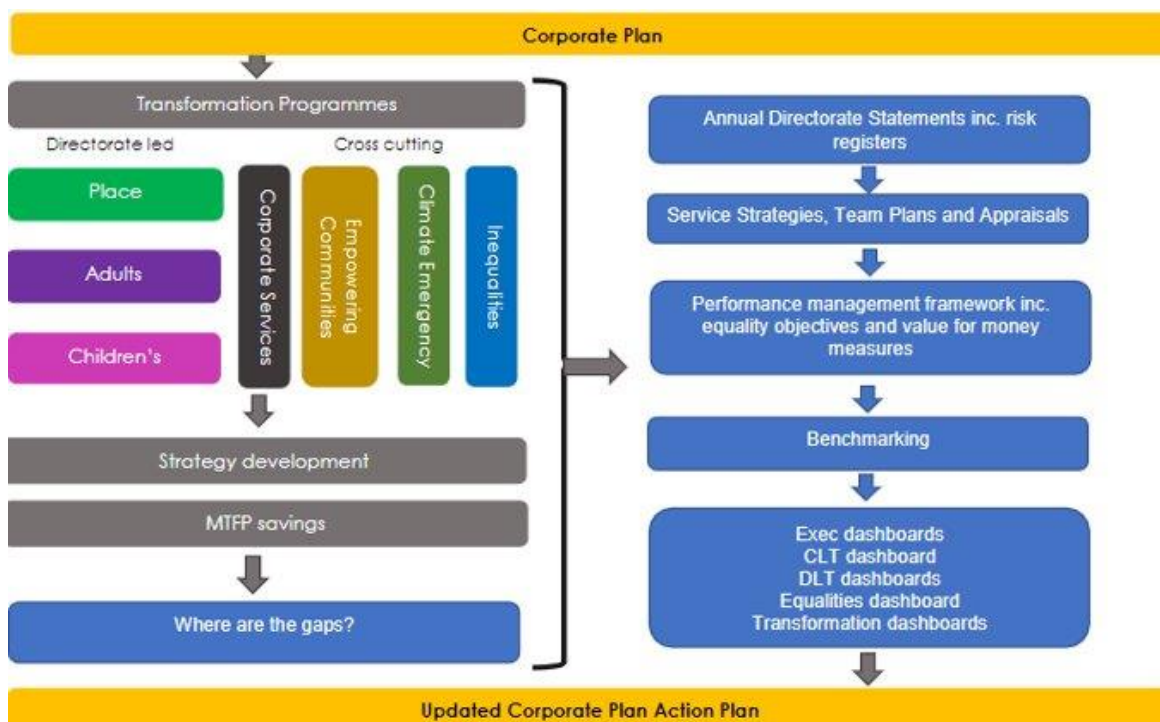


The way that the Council manages its business and delivers services to residents is changing rapidly. Our population continues to grow and people are living longer, bringing increased demand for services. Technological change, recently escalated by the Covid pandemic, is also having a huge impact, from how and where we work, to how we socialise.

Achieving our vision for North Somerset requires a new relationship with residents, striking the right balance between providing public services and enabling people to do things for themselves.

The Council's transformation vision aims to address these challenges and it has helped us identify and unlock financial savings in the last few years, enabling us to be more efficient and to prioritise resources for frontline services.

In the past we have promoted regeneration and economic growth, and improved the way we work both within the Council and with our partners. The Council's vision for the future builds on this foundation, but broadens it to ensure that all areas of the Council's services are integrated into a Transformation Programme. The graphic below provides an overview of the updated transformation arrangements and how they integrate with the Corporate Plan, Financial Planning and the Performance Management Framework, with the Corporate Leadership Team take an overarching strategic role in bringing things together, and monitoring outcomes.



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Performance outputs

Each quarter the Corporate Leadership Team receives a performance report on a wide range of indicators to ensure that the priorities of the Council are being met, services are being delivered to customers, income targets and cost reductions are being achieved, and to identify issues which may require further strategic action. Reports are also considered by the Executive, as well as Policy and Scrutiny Panels, who may choose to provide in-depth focus on specific elements of the report or performance outcomes.

Performance is compared to locally set targets, and, where available, national and regional benchmarks. Targets are agreed prior to the start of each year, and action plans are developed throughout the year to take remedial action where Council performance has not met planned targets. The Council also publishes a range of Key performance measures on its public website on a quarterly basis.

Monitoring shows that some indicators have, in-part, been impacted by the Covid-19 pandemic in 2021/22, although performance will be improved once the situation returns to pre-Covid circumstances. For example, as noted above, waste collection and recycling performance has been impacted due to driver shortages during periods when Covid-19 levels remained high.

Some of the key performance indicators across the range of activities are shown below, comparators are shown in the following table:

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Measure	Performance Output 2020/21	Target 2021/22	Benchmark (SW)	Performance Output 2021/22	RAG rating 2020/21	RAG rating 2021/22
A thriving and sustainable place						
Healthy life expectancy at birth (male) (years)	66.7	Increase	64.7	61.9	Green	Red
Healthy life expectancy at birth (female) (years)	67.4	Increase	65.5	68.1	Green	Green
Average earnings by place of residence (£)	617.4	>£600	577.3	579.5	Amber	Amber
The percentage of minor planning applications determined within 8 weeks or agreed time limit	87.0%	>75%	83%	87.3%	Green	Green
The percentage of major planning applications determined within 13 weeks	80.0%	>70%	N/A	66%	Green	Amber
The total number of crime incidents	12,120	<12,120	N/A	13,600	Green	Red
The number of anti-social behaviour incidents	3,502	<3,502	N/A	2,663	Green	Green
The percentage of potholes repaired within 28 days	98.3%	>95%	95%	95%	Green	Green
The percentage of Principal roads that need maintenance	1.4%	<1.4%	3%	2%	Green	Amber
The percentage of Non-principal roads that need maintenance	5.7%	<5.4%	7%	5%	Amber	Green
A Council which empowers and cares about people						
Number of people in permanent care home placements age 65+ remains stable	770	875	N/A	738	Green	Green
Number of people in permanent care home placements age 18-64 remains stable	192	204	N/A	181	Green	Green
The percentage of care leavers who are EET (in education, employment or training) (aged 19-21)	43%	Increase	52%	58.2%	Red	Green
The percentage of care leavers who are in suitable accommodation	92.8%	Increase	89%	94.8%	Green	Green
The percentage of adults with a learning disability who live at home or with family	67.9%	68%	78%	66.0%	Green	Amber
The percentage of adults with learning difficulties in paid employment	8.8%	5.3%	5.3%	7.9%	Amber	Amber
The percentage of adults in contact with secondary mental health services who are in paid employment	11.0%	11.00	11.0%	10.8%	Green	Green
The number of households living in temporary accommodation	74	<60	N/A	88	Red	Red
Claimant count for those on out of work benefits in North Somerset (aged 16-64 years)	4.6%	<4%	3.0%	2.8%	Green	Green
Percentage of older people who are still home 91 days after discharge from hospital into reablement/rehabilitation services	72.7%	80%	88.3%	40.0%	Red	Red

In addition, our financial objectives and measures are laid out in the assumptions supporting our Budget and Medium Term Financial Plan, and our performance against these for 2021/22 is as follows:

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Measure	2020/21 Performance	2021/22 Target	2021/22 Performance	RAG	RAG
				rating	rating
				2020/21	2021/22
Net revenue budget out-turn	Net Revenue Outturn in line with budget (no under / over-spend)	Within 1.5% of budget	Net Revenue Outturn in line with budget (underspend of £0.69m = 0.4% of budget)	Green	Green
General Fund balance	General Fund balance is £9.053m, 5.5% of the net revenue budget	Minimum of 5% of net revenue budget	General Fund balance is £9.744m, 5.5% of the net revenue budget	Green	Green
Council Tax increases	Increase of 1.99% - Within capping limit of 2% Adult Social Care precept of 3% - Within the government capping limit of 3% over 2 years	Within government capping limit	Increase of 1.99% - Within capping limit of 2% Adult Social Care precept of 3% - Within the government capping limit of 3% over 2 years	Green	Green
Council Tax base growth	The tax base reduced by 0.58%, compared with a planned growth of 0.86%	As per forecast	The tax base reduced by 1.25%, compared with a planned growth of 0.89%	Red	Red
Collection rates:-					
· Council Tax	97.6%	97.3%	98.0%	Amber	Green
· Business Rates	89.8%	98.2%	95.3%	Red	Amber
· General Debtors	90.7%	80.0%	93.6%	Green	Green
Payment of general creditors	99.7% within 30 days	85% within 30 days	98.3% within 30 days	Green	Green
Capital investment programme	Actual capital expenditure £47.8m / 72%. Slippage into 2021/22	Capital programme 2021/22 £94.4m	Actual capital expenditure £45.4m / 48%. Slippage into 2022/23	Red	Red
Return on short-term investments	Actual income £0.4m	Budgeted income £0.1m	Actual income £0.2m	Red	Green
Return on long-term investments	Actual return 4.21%	Budgeted return 4.0%	Actual return 4.0%	Green	Green
Net income from commercial investment property	Actual net income £0.079m	Budgeted net income £0.154m	Actual net income £0.026m	Red	Red
Borrowing	Actual borrowing £151.0m, which is below net revenue budget of £166.0m	Not to exceed net revenue budget	Actual borrowing £144.1m, which is below net revenue budget of £177.4m	Green	Green
Revenue costs of borrowing	Actual borrowing costs £12.2m, which equates to 7.4% of the net revenue budget	Not to exceed 10% of the net revenue budget	Actual borrowing costs £12.2m, which equates to 6.9% of the net revenue budget	Green	Green

Performance within some of the financial indicators was partially affected by Covid-19 during the year in some areas, although to a lesser extent than in 2020/21. Some of these areas have already been described elsewhere within the Narrative Statement, for example, reduced levels of collection for council tax and business rates.

As can be seen from the table above, the outcomes for each of these measures can have a very real impact on the Council's financial well-being. Corrective actions or plans have been put into place where possible to ensure that the long-term future sustainability of the Council is protected. This

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highlights the importance of the framework, and the reason we choose to monitor these important indicators in detail. All of the outcomes have been integrated into the Council's financial monitoring processes, and the impacts are featured within the budget monitoring reports or the statutory accounts, whether on the face of a core statement or described in a supporting note or working paper.

It is important to note that all councils have similar frameworks to monitor and assess financial performance. Whilst some of the measures may appear generic in nature, individual factors, circumstances and approaches to risk can mean that they are not directly comparable to other authorities.

4. Looking ahead in the Medium Term

Looking ahead with the revenue budget planning in the medium term

For 2021/22 the Council received a further one-year settlement from central government, which in essence was a 'rolled-over' funding package based on levels from the previous financial year.

Whilst this did not provide any of the delayed reforms intended for local government finance or any financial certainty across the medium-term, the government did continue to recognise the pressures faced by councils in respect of adult social care, meaning that the Council received additional grant funding towards these pressures, and was permitted to levy a 3% Adult Social Care Precept by increasing council tax.

As a result, total resources going into 2021/22 increased by over £11m over the previous year. However, the Council still had to make savings of over £7.451m to set a balanced budget, due to inflationary cost rises, increases in demand for adult and children's social care, home to schools transport services and special educational needs.

As Government funding and the regulatory framework continues to be uncertain, income generation and a wider sense of commercialisation has become more of a priority for the Council. The Council is developing plans to maximise its current sources of income, to identify new income streams and to take a more commercial approach to understand its cost drivers and commissioning arrangements, and looking at other ways to deliver services, whether through partnership arrangements or other solutions. A strong emphasis has once again been placed on maximising income from council tax and business rates. Work continues to encourage new house building, and to accelerate and generate new business growth, particularly in Enterprise Areas. This aligns with the regeneration ambitions of the Council, as well as those being developed in the Local Plan.

The Council's latest medium-term financial modelling for the three years 2022 to 2025, shown in the table below, was published in February 2022.

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	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000
Projected Revenue Resources				
Government Grants	24,030	27,861	21,409	21,258
Council Tax & Business Rates	147,845	152,369	160,687	166,184
Other	(558)	(1,140)	1,539	0
Total Resources	171,317	179,090	183,635	187,442
Net Revenue Budget				
Base Budget	160,030	171,317	179,090	183,635
Growth items	13,763	16,905	14,143	13,593
One-off Covid items	4,975	(4,975)	0	0
Grant Income and Savings Proposals	(7,451)	(4,157)	(805)	(715)
Savings Requirement	0	0	(8,793)	(9,071)
Revised Base Budget	171,317	179,090	183,635	187,442

This modelling covers a shorter period than hoped for, as the Council would ideally like to publish plans for the next five years, but it reflects the limited funding information released by the Government at that time. Given the potential range of change faced by most councils across the country as a result of national fiscal and policy decisions, it is increasingly difficult to make meaningful predictions beyond the period of the published Spending Review. The modelling reflected the Council's estimates of locally generated resources and anticipated cost increases for inflation, superannuation and service demands. The deteriorating economic situation over recent months, such as lower growth forecasts and rapid increases in inflation, means that these estimates will need to be reviewed and updated in the coming months. The Council recognises that there remain many uncertainties over events, and impacts which may emerge, even in the short-term, which will need to be addressed and incorporated into future reporting.

As can be seen from the table above, the Government provided additional one-off, short-term funding to cover the potential financial impacts of the pandemic during the 2021/22 financial year. Whilst these sums were incorporated into the revenue budget, no definitive spending plans were approved at that time. The out-turn report presented to the Executive shows that £0.8m of funding was allocated to the Place directorate at the end of the year to fund the Covid impacts that arose across different areas of their budget, notably income short-falls in parking and seafront concessions.

The table shows that the budget short-fall across the remaining two years of the plan is nearly £18m, with a fairly even split of approximately £9m in each year. As noted above, several elements of the forecast made at that time were uncertain or have changed since that time. Uncertainties include the amount of government support for the long-term funding solution of adult social care services, the wider funding back-drop for local government as a sector, legislative changes relating to the Fair Funding Review and Business Rate Review and Re-sets, and the implementation of Social Care Reforms.

The Council's financial planning regime is a well-established and continuous process, and work began in April to update these forecasts, bringing in the latest information available in preparation for budget setting for 2023/24 as part of the Medium Term Financial Plan. As in previous years we will continue to update and publish such forecasts on a rolling basis and whilst the financial plans indicating a savings requirement could appear daunting, the Council has a strong record of demonstrating good financial management, meaning that over recent years savings plans have been identified and delivered, and more importantly, budgets have been set and balanced without the need to call on the General Fund reserve balance.

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However, the Council is currently concerned about recent rising inflationary pressures linked to the cost of living crisis, which are likely to significantly impact across our budget in the months ahead, driving up the direct costs of employees, transport and other energy provision, as well as introducing increases throughout the supply chain as contractors adjust to higher cost pressures. The Government has yet to announce any additional funding for these unprecedented pressures. Representations are being made to share such details. The Council may be required to take further action to deliver a balanced budget, which could involve decisions to reduce areas of non-essential spending, and potentially make changes to service provision.

Looking ahead with the five-year capital programme

In the same way that the Council plans and prepares for its revenue budget, we also have similar plans for our capital programme, which looks ahead on a five-year horizon. The programme is ambitious and seeks to deliver the needs of our growing communities, but also to deliver real transformation change within the environment we live and work in.

Further details are contained within the Capital Strategy, which provides the framework within which the Council's capital investment plans are to be delivered. The latest Capital Strategy, which was approved in February 2022, provides:

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services,
- an overview of how the associated risk is managed,
- the implications for future financial sustainability

The Capital Strategy and Programme will also be revisited to ensure that the policies and development plans remain current, or to assess if changes need to be made as a result of asset management surveys and operational service requirements. Capital spending forecasts will also be reviewed to reassess cost projections and funding streams, which may be exposed to financial risk should there be sustained inflationary pressures.

Accounting changes in the year and looking ahead

There is one significant change to the requirements of the Code of Practice on Local Government Accounting and underlying accounting standards impacting on this year's financial statements over the prior year. The disclosure and valuation of Highways network infrastructure assets under the Code is currently subject to consultation. Under draft guidance, disclosures include only the Net Book Value of infrastructure assets, rather than separate disclosure of accumulated cost and depreciation. Hence Infrastructure assets have been excluded from the Property, Plant and Equipment disclosure in Note 24.1 above, and are included in a new table, included at Note 24.2. This change has no impact on the Net Book Value of the Property, Plant and Equipment assets included in the Council's Balance Sheet.

Note 5 of the financial statements details the impact of accounting standards which have not yet adopted into the Code of Local Government accounting on future year's accounts. The implementation of a new accounting standard IFRS16 Leases has again been deferred until 2024/25. The impact of this implementation on the Council's accounts cannot yet be fully quantified.

The Council has prepared group accounts for the first time in 2021/22, to include the financial impact of its new subsidiary, North Somerset Environment Company Ltd (NSEC), whose transactions have become material to the Council's accounts during the year. Differences between the results reported in the group accounts and the Council's single entity accounts largely relate to the analysis

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of consolidated income and expenditure on the face of the Statement of Comprehensive income and expenditure, and movements in the Group Movement in Reserves Statement.

Under current legislation, until 31 March 2023 the cumulative deficit on the Council's Dedicated Schools Grant (DSG) is carried forward as an unusable reserve, rather than impacting on the Council's General Fund reserves. The cumulative deficit as at 31 March 2022 is £13.4m, but, despite mitigating actions put in place by the Council, this is expected to increase again in 2022/23. Further work on recovering the deficit is on-going. This is discussed in more detail in Note 15. This is a national issue, and the government is currently consulting on whether to extend this statutory override beyond 2022/23. While this represents a potential risk to the Council's financial sustainability, the Council's judgement is that the statutory override is likely to be extended, and hence the deficit is unlikely to need to be charged immediately to General Fund balances.

5. Summary Position

The 2021/22 financial year has continued to be influenced by the ongoing impacts and events brought about by the Covid pandemic, with some service areas continuing to be more affected than others. Covid-related impacts, risks and forecasts have been assessed and incorporated into all aspects of the Council's monitoring and governance processes throughout the year to ensure that all impacts were quantified and compared to the amounts of known resources available. This provided an assurance framework to the Corporate Leadership Team, to support and enable strategic decisions to be made knowing that that they could be funded without serious impact on the Council's overall financial sustainability.

Additional resources have again been allocated to the Council throughout the year. These have been closely monitored when managing the overall financial position. It has been important to understand the purpose and nature of this funding, to determine how the Council should reflect these monies within its budget, particularly as much of this funding has been given to deliver national government objectives within a local setting.

Although this has been a year of continued change, risk and uncertainty, the financial impacts detailed throughout the financial statements show that the Council has managed to deliver within its overall resources. Not only has it achieved a balanced budget, but delivered an underspend, which, through setting monies aside, will help to mitigate risk and protect services in future years. Increasing the General Fund working balance and other risk-based reserves were notable achievements that will help maintain financial stability in future years.

The Council's approach to financial planning over the medium-term includes a focus on investment, driving regeneration and building income and growth plans, a key part of the Council's vision is to support local recovery and renewal activity through our place-making strategies, led by the Chief Executive and the Corporate Leadership Team. This will further strengthen our position, developing financial resilience through reducing exposure to possible reductions in government funding.

The Council is acutely aware that there remain uncertainties to be faced in the months and years ahead, but recognises that it needs to deliver against the strategic vision and Corporate Plan aims that it has set for itself, and for the local communities it serves. That being said, it is important to pause and look back, and highlight how the Council has responded to the many, many challenges it has faced over the course of the past year, and how the collective performance from everyone involved has contributed to the successes achieved.

Updates on the Council's finances are provided throughout the year in the free magazine 'North Somerset Life', and through reports available on the Council's website. If you have any questions or

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would like more information, please call our Financial Management team on 01934 634619, or e-mail the Head of Finance on Melanie.Watts@n-somerset.gov.uk. You can obtain additional copies of this report by writing to Melanie Watts, Head of Finance, North Somerset Council, Town Hall, Walliscote Grove Road, Weston-Super-Mare, BS23 1UJ.

A handwritten signature in black ink, appearing to read 'Amy Webb', is written over a light grey rectangular background.

Amy Webb

Director of Corporate Services and s151 officer

7 July 2022

Narrative Report

6. Basis of Preparation and Presentation of the Accounts

The Council prepares its Statement of Accounts on a going concern basis, under the assumption that it will continue in existence into the foreseeable future, and this remains valid despite the uncertainties currently being experienced as a result of the Covid-19 pandemic. Disclosures are included within the Statement of Accounts based on an assessment of their materiality. A disclosure is considered material if through an omission or a misstatement the decisions made by users of the accounts would be influenced. This could be due to the value or the nature of the disclosure.

The Council considers disclosures against an internally calculated materiality threshold which is reviewed each year. However individual items of income and expenditure over £6m which are not disclosed on the face of the Comprehensive Income and Expenditure Statement (CIES) are considered to be significant and are disclosed in Note 3. Some disclosures are included due to their nature even if the value of transactions is not over the materiality threshold, an example of this is Note 18 Officer's Remuneration.

The assessment of materiality also influences the Council's decision to produce Group Accounts. Each year the Council assesses the entities it exerts control or significant influence over to identify which fall into the group boundary. If the value of transactions for the group as a whole is material, Group Accounts are produced. The Council has made a judgement that group company activities are now sufficiently material for there to be a requirement to produce group accounts for 2021/22.

Explanation of the Financial Statements

The Statement of Accounts sets out the Council's income and expenditure for the year, and its financial position at 31 March 2022. It comprises core and supplementary statements, together with disclosure notes. The format of the Accounts follows best practice as defined in the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 ("the Code") and incorporates the requirements of International Financial Reporting Standards.

The Code is updated annually to reflect new or updated accounting standards. There are no significant changes to the Code in the current year which impact on the core financial statements.

The figures presented in the financial statements are rounded to the nearest thousand pounds and therefore, due to the complexity of the statements and their interdependencies, some rounding differences will arise. Resulting differences are considered trivial and immaterial to the presentation of the financial statements.

The Core Statements are:

[Movement in Reserves Statement \(MIRS\)](#) - shows the movement from the start of the year to the end on the different reserves held by the authority, analysed between 'usable reserves' and 'unusable reserves. Usable reserves can be applied to fund expenditure or reduce local taxation, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. For example, the capital receipts reserve can only be used to fund capital expenditure or repay debt. 'Unusable reserves' relate to technical accounting adjustments, and cannot be used to fund services. This category of reserves includes reserves that hold unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences, shown in the movement in reserves statement line 'adjustments between accounting basis and funding basis under regulations'). The statement shows how the movements in year of the authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices (in the CIES), and the statutory adjustments required to return to the amounts chargeable to council tax for the

Narrative Report

year. The net increase/decrease line shows the movement in the statutory General Fund balance in the year, following those adjustments.

Comprehensive Income and Expenditure Statement (CIES) - shows the cost of providing Council services during the year, adjusted to reflect required accounting transactions such as depreciation and impairment, in accordance with generally accepted accounting practice, rather than the amount funded from council tax. Authorities raise taxation to cover expenditure in accordance with statutory requirements; this may differ from the accounting cost. The Expenditure and Funding Analysis (Note 10) compares the CIES with income and expenditure taken into account when setting the budget and Council Tax, adjusting for certain amounts which are disregarded by statute. An analysis by nature, often referred to as a subjective analysis, of the CIES is given in Note 16.

Balance Sheet - gives a snapshot of the value of the Council's assets and liabilities at the year-end. These net assets are matched by the Council's reserves, which are categorised as either Usable or Unusable (as explained above).

Cash Flow Statement - shows how the Council generates and uses cash and cash equivalents (assets which are readily convertible into cash) during the year, and explains the reasons for the changes in the year. 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.

The supplementary financial statements are:

- The **Collection Fund** - shows the billing authority transactions relating to the collection of Council Tax and Business Rates, and the relevant distributions to precepting bodies. North Somerset's Council Tax precepting bodies are the Council itself, the Avon and Somerset Police and Crime Commissioner, and the Avon Fire and Rescue Service. The Business Rate precepting bodies are the Council, Central Government and Avon Fire and Rescue Service. Each year the Council calculates the surplus or deficit on the Collection Fund, and this is distributed proportionately between the relevant precepting bodies.
- The **Notes to the financial statements** provide more detail about the application of the Council's accounting policies and individual transactions.
- The **Accounting Policies** set out the policies that have been followed in preparing the accounts, in line with Code requirements.
- The **Group accounts** reflect the combined financial position of the Council and its subsidiary company, North Somerset Environment Company Limited, as the use of this separate company means that the Council's single entity financial statements on their own do not fully reflect the income and expenditure associated with its activities.
- The **Annual Governance Statement** sets out the governance structures of the Council and its key internal controls.
- A **Glossary** of key terms and abbreviations can be found at the end of this publication.

The Council's Accounts are audited by Grant Thornton UK LLP. However, their review does not cover any external documents or statements included as electronic hyper-links.

Statement of Responsibilities

North Somerset Council's responsibilities

North Somerset Council is required:

- to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Director of Corporate Services.
- to manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets.
- approve the Statement of Accounts.

During 2021/22 these responsibilities were undertaken by Amy Webb, the Director of Corporate Services and Section 151 officer.

The Director of Corporate Services' core responsibilities

The Director of Corporate Services is responsible for the preparation of the Council's Statement of Accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ("the Code").

In preparing this Statement of Accounts, the Director of Corporate Services has:

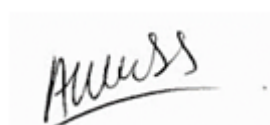
- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent; and
- complied with the local authority Code.

The Director of Corporate Services has also:

- kept proper accounting records which were up to date; and
- taken reasonable steps to prevent and detect fraud and other irregularities.

Certificate

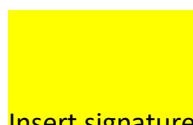
I hereby certify that the following Statement of Accounts gives a true and fair view of the financial position of North Somerset Council at the reporting date, and of its expenditure and income for the year ended 31 March 2022, and hereby authorise the issue of the accounts.



Amy Webb FCCA

Director of Corporate Services

7 July 2022



Insert signature

Cllr John Cato

Chairman of Audit Committee

XX September 2022

Independent Auditors Report and Opinion

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Independent Auditors Report and Opinion

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Primary Financial Statements

Primary Financial Statements

Movement in Reserves Statement

2021/22	Note	Usable Reserves								Unusable Reserves										TOTAL RESERVES £000
		General Fund Earmarked Reserves					Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Revaluation Reserve £000	Capital Adjustment Account £000	Collection Fund Adjustment Account £000	Pensions Reserve £000	Dedicated Schools Grant Adjustment Account £000	Financial Instruments Adjustment Account £000	Accumulated Absences account £000	Deferred Capital Receipts Reserve £000	Pooled Investment Funds Adjustment Account £000	Total Unusable Reserves £000	
		General Fund Balance £000	LMS School Balances £000	Other Schools Balances £000	Other Earmarked Revenue Reserves £000	Earmarked Capital Reserves £000														
Balance at 1 April 2021	8, 9	(9,053)	(2,325)	(334)	(66,613)	(6,200)	(12,129)	(4,690)	(101,344)	(92,272)	(152,055)	15,358	298,881	7,150	110	1,645	(59)	545	79,303	(22,041)
Total Comprehensive Income and Expenditure	CIES	(17,050)	0	0	0	0	0	0	(17,050)	(9,166)	0	0	(41,551)	0	0	0	0	0	(50,717)	(67,767)
Adjustments between accounting basis & funding basis under regulations	7	2,688	0	0	0	0	(1,342)	(3,494)	(2,148)	9,976	(10,926)	(10,811)	8,657	6,297	50	(512)	6	(589)	2,148	0
Transfers between Usable Reserves	8.1	13,671	(676)	(53)	(11,826)	(1,116)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
(Increase) / Decrease in 2021/22	8, 9	(691)	(676)	(53)	(11,826)	(1,116)	(1,342)	(3,494)	(19,198)	810	(10,926)	(10,811)	(32,894)	6,297	50	(512)	6	(589)	(48,569)	(67,767)
Balance at 31 March 2022 - carried forward	8, 9	(9,744)	(3,001)	(387)	(78,439)	(7,316)	(13,471)	(8,184)	(120,542)	(91,462)	(162,981)	4,547	265,987	13,447	160	1,133	(53)	(44)	30,734	(89,808)

Increases in General Fund Earmarked usable reserves largely relate to increased funding for Covid and social care projects that are yet to be applied, see Note 8. The decrease in Unusable Reserves overall debit balance relates to technical accounting adjustments, and cannot be used to fund services, see Note 9.

Primary Financial Statements
Movement in Reserves Statement

2020/21	Note	Usable Reserves									Unusable Reserves									TOTAL RESERVES	
		General Fund Earmarked Reserves									Revaluation Reserve	Capital Adjustment Account	Collection Fund Adjustment Account	Pensions Reserve	Dedicated Schools Grant Adjustment Account	Financial Instruments Adjustment Account	Accumulated Absences account	Deferred Capital Receipts Reserve	Pooled Investment Funds Adjustment Account		Total Unusable Reserves
		General Fund Balance	LMS School Balances	Dedicated Schools Grant	Other Schools Balances	Other Earmarked Revenue Reserves	Earmarked Capital Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves											
Balance at 1 April 2020	8, 9	(9,053)	(906)	3,847	(351)	(40,260)	(3,885)	(12,028)	(3,046)	(65,682)	(73,712)	(139,265)	439	268,236	0	405	1,276	(69)	950	58,260	(7,422)
Re-statement of opening balances		0	0	(3,847)	0	0	0	0	0	(3,847)	0	0	0	0	3,847	0	0	0	0	3,847	0
Re-stated balance at 1 April 2020		(9,053)	(906)	0	(351)	(40,260)	(3,885)	(12,028)	(3,046)	(69,529)	(73,712)	(139,265)	439	268,236	3,847	405	1,276	(69)	950	62,107	(7,422)
Total Comprehensive Income and Expenditure	CIES	(15,537)	0	0	0	0	0	0	0	(15,537)	(23,350)	0	0	24,268	0	0	0	0	0	918	(14,619)
Adjustments between accounting basis & funding basis under regulations	7	(14,533)	0	0	0	0	0	(101)	(1,644)	(16,278)	4,791	(12,791)	14,919	6,377	3,303	(295)	369	10	(405)	16,278	0
Transfers between Usable Reserves	8.1	30,070	(1,419)	0	17	(26,353)	(2,315)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
(Increase) / Decrease in 2020/21	8, 9	0	(1,419)	0	17	(26,353)	(2,315)	(101)	(1,644)	(31,815)	(18,559)	(12,791)	14,919	30,645	3,303	(295)	369	10	(405)	17,196	(14,619)
Balance at 31 March 2021 - carried forward	8, 9	(9,053)	(2,325)	0	(334)	(66,613)	(6,200)	(12,129)	(4,690)	(101,344)	(92,271)	(152,056)	15,358	298,881	7,150	110	1,645	(59)	545	79,303	(22,041)

Primary Financial Statements

Comprehensive Income and Expenditure Statement

	Note	2020/2021 As re-stated			2021/2022		
		Gross Expenditure	Gross Income	Net Expenditure	Gross Expenditure	Gross Income	Net Expenditure
		£000	£000	£000	£000	£000	£000
Adult Social Services							
Adult Social Care		115,000	(41,116)	73,884	110,977	(50,467)	60,510
Housing Services		4,743	(3,650)	1,093	5,225	(4,378)	847
		119,743	(44,766)	74,977	116,202	(54,845)	61,357
Children's Services							
Children's Services		38,326	(5,550)	32,776	34,982	(8,139)	26,843
Schools Budgets & Grants		57,551	(56,737)	814	64,132	(52,216)	11,916
		95,877	(62,287)	33,590	99,114	(60,355)	38,759
Place		86,284	(34,846)	51,438	79,396	(26,775)	52,621
Corporate Services		71,125	(64,307)	6,818	81,153	(58,057)	23,096
Public Health & Regulatory services		11,741	(11,343)	398	14,601	(18,366)	(3,765)
Non Service		3,042	(2,700)	342	2,683	(2,682)	1
Cost of Services	10	387,812	(220,249)	167,563	393,149	(221,080)	172,069
Other Operating Expenditure	11	12,572	0	12,572	18,036	0	18,036
Financing and investment income and expenditure	12	12,995	(2,566)	10,429	12,927	(2,757)	10,170
Taxation and non-specific grant income	13	0	(206,101)	(206,101)	0	(217,325)	(217,325)
(Surplus) / Deficit on Provision of Services	10,16	413,379	(428,916)	(15,537)	424,112	(441,162)	(17,050)
(Surplus) / deficit on revaluation of non-current assets	9.2			(23,350)			(9,166)
Remeasurements of net defined benefit liability	9.5			24,268			(41,551)
Other Comprehensive (Income) and Expenditure				918			(50,717)
Total Comprehensive (Income) and Expenditure				(14,619)			(67,767)

Expenditure on Covid-19 related pressures is lower in 2021/22 than the previous year. Similarly Covid-related grant income received is also lower, notably in Adult Social Services and Place.

Increased income in Adult Social Services in 2021/22 relates to additional funding from the CCG from Section 256 agreements for integrated care (see Note 21).

In previous years the Council reallocated the cost of Corporate Services to other directorates, relative to their use of these central services. The Council has chosen not to reallocate service costs from 2021/22 to enable greater transparency of these costs.

The increase in Other Operating Expenditure is due to losses on disposal relating to schools transferring to academy status.

Changes in Other Comprehensive Income and Expenditure relate to material movements in the valuations of the Council's property assets and pensions liability.

Primary Financial Statements

Balance Sheet

	Note	31 March 2021 £000	31 March 2022 £000
Property, Plant and Equipment			
Other Land and Buildings	24.1	183,785	175,895
Infrastructure Assets	24.2	128,037	149,557
Community Assets	24.1	5,036	5,036
Vehicles, Plant, Furniture and Equipment	24.1	11,006	10,421
Assets Under Construction	24.1	54,703	49,762
Surplus assets	24.1	629	629
Intangible Assets	24.1	200	150
Heritage Assets		288	288
Investment Property	25	44,770	45,707
Long Term Investments	31.1	9,493	10,082
Long Term Debtors	31.1	4,797	4,612
Long Term Assets		442,744	452,139
Cash and Cash Equivalents	CFS	10,327	0
Short Term Investments	31.1	133,072	167,064
Inventories		1,596	1,569
Short Term Debtors	27	56,031	55,000
Current Assets		201,026	223,633
Cash and Cash Equivalents	CFS	0	(4,417)
Short Term Borrowing	31.1	(7,804)	(7,364)
Short Term Creditors	28	(67,159)	(74,113)
Short Term Provisions	29	(6,178)	(6,626)
Grants Received in Advance - Revenue	14	(11,791)	(4,296)
Grants & Contributions Received in Advance - Capital	14	(50,420)	(50,687)
Current Liabilities		(143,352)	(147,503)
Long Term Provisions	29	(1,550)	(1,911)
Long Term Borrowing	31.1	(143,215)	(136,697)
Long Term Borrowing - Ex Avon Debt	33	(12,252)	(11,761)
Pensions Liabilities	35.1	(298,881)	(265,987)
Other Long Term Liabilities	36.1	(22,479)	(22,105)
Long Term Liabilities		(478,377)	(438,461)
Net Assets		22,041	89,808
Usable Reserves	8.1	(101,344)	(120,542)
Unusable Reserves	9.1	79,303	30,734
Total Reserves		(22,041)	(89,808)

Movements in Cash and Cash Equivalents, Short term investments, Debtors, Creditors, Grants received in advance and Usable Reserves relate largely to the timing of Covid support grants.

Primary Financial Statements

Cash Flow Statement

	Note	2020/2021 £000	2021/2022 £000
Net surplus / (deficit) on the provision of services	CIES	15,537	17,050
Adjustments to the net surplus / (deficit) on the provision of services for non-cash movements	37.1	65,655	40,116
Adjustments for items included in the net surplus / (deficit) on provision of services that are investing or financing activities	37.2	(36,613)	(43,803)
Net cash flows from Operating Activities		44,579	13,363
Investing Activities			
Purchase of Property, Plant and Equipment, Investment property and Intangible Assets		(39,468)	(38,718)
Proceeds from sale of Property, Plant and Equipment, Investment property and Intangible Assets		2,521	3,433
		(36,947)	(35,285)
Purchase of short and long term investments		(1,807,000)	(571,500)
Proceeds from sale of short and long term investments		1,789,000	537,500
		(18,000)	(34,000)
Other payments for Investing Activities		(1,045)	(433)
Other receipts from Investing Activities		33,411	37,798
		32,366	37,365
Net cash flows from Investing Activities		(22,581)	(31,920)
Financing Activities			
Cash receipts from short and long term borrowing		2,012	298
Repayments of short and long term borrowing		(850)	(7,745)
		1,162	(7,447)
Finance lease repayments		(37)	(360)
Other net (payments) / receipts for Financing Activities		(15,391)	11,620
		(15,428)	11,260
Net cash flows from Financing Activities		(14,266)	3,813
Net increase / (decrease) in cash and cash equivalents		7,732	(14,744)
Cash and cash equivalents at the beginning of the reporting period		2,595	10,327
Cash and cash equivalents at the end of the reporting period comprising:		10,327	(4,417)
Cash held by the Council	37.4	10,327	(4,417)
		10,327	(4,417)

The movement in the Council's Cash balance is due to cash flows arising from the Council's financial out-turn position, repayment of borrowing, and lower turnover of investments, which continue to be linked with the Covid grant funding received and applied during the year. The movement in the Council's other net payments and receipts for financing activities relates to changes in the Collection Fund out-turn position, which is again linked to Covid impacts.



Notes to the accounts

Technical Notes, Judgements and Assumptions

1. Critical judgements in applying accounting policies

In applying its accounting policies, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. Materiality has been applied in all judgements which significantly affect the financial statements. The critical judgements made in the Statement of Accounts are:

Accounting treatment of Covid-19 response funding

The government continued to provide a number of additional funding streams and financial support packages for local government to help them respond to Covid-19 pressures across many of the services they deliver, with funding being given using powers under Section 31 of the Local Government Act 2003. Significant judgement has been made to each of these funding streams giving due consideration to whether; the Council is acting as the principal or the agent; are there any grant conditions outstanding and is the grant a specific or non-specific grant.

The Council has complied with section 2.3 of the Code and included a range of general and specific grants within its financial statements and excluded others on the grounds that it is acting as an Agent.

Items **excluded** from the financial statements and which could be deemed to have a material impact on the Council's accounts are mandatory grants administered on behalf of the Department for Business, Energy, and Industrial Strategy (BEIS), largely aimed at providing specific and targeted support to businesses, where the same grants were applied by all local authorities across the country.

Items **included** within the financial statements and which could be deemed to have a material impact on the Council's accounts are listed below.

- Discretionary grants funding provided by the Department for Business, Energy, and Industrial Strategy (BEIS), enabling the Council to implement support measures relevant to businesses within the local area
- Grants provided by the Department for Levelling Up, Housing and Communities (DLUHC) including Covid Support Grant, Sales Fees and Charges Compensation Scheme Grant
- Grants provided by the Department of Health and Social Care (DHSC) include Infection Control Funding, Workforce Capacity Fund, Rapid Testing Fund, Contain Outbreak Management Fund

In respect of 'recognition' of specific grants, consideration has been given to whether there are any grant conditions that have not been met or which remain to be satisfied, and whether the Council has reasonable assurance that it will meet these. Unspent grant allocations at the year-end where specific conditions have not been met have been recognised as receipts in advance; and unspent grant allocations at the year-end where restrictions have been noted have been transferred into earmarked reserves.

In the absence of reference to any such condition requiring repayment within the Determination by the government body, the Council has deemed incurring relevant expenditure as a conditional requirement, and where this has not been met, then unspent grant allocations have been recognised as receipts in advance.

Impact of Covid 19 on the Council's financial standing

There continues to be uncertainty about the medium to longer-term impacts for the Council and its key stakeholders as a result of the Covid 19 emergency. These could potentially result in a wider risk

Technical Notes, Judgements and Assumptions

to its broader financial standing and therefore subsequent impacts on the services that the Council provides into the future. Over the past year the Council has successfully developed a series of strategies and plans to effectively forecast and monitor the financial impacts of the pandemic, including a range of options on how it will continue to provide its services to residents within challenging periods in the future. The Council believes that it has demonstrated its strategic financial capabilities by delivering an underspend in its out-turn position in the face of adversity and has determined that the uncertainty over the Council's financial position is not sufficient to provide an indication that the Council's assets be further impaired as a result of a need to close facilities and reduce levels of services provision.

Better Care Funding

The Section 75 agreement by which Better Care resources have been agreed between the Council and North Somerset CCG has been assessed against the appropriate standards, mainly IFRS 10 and IFRS11. Following consideration of the control and governance arrangements of the underlying transaction streams, officers have judged that the arrangement should be classified as a 'joint operation'. As such, the Council and CCG accounts for the assets, liabilities, revenues and expenses relating to their involvement in the joint operation. Further details are set out in Note 21.

Accounting for schools' non-current assets

The Council recognises the local authority maintained schools land and buildings on its Balance Sheet where it directly owns the assets, and the building assets of schools where the owning entity has transferred rights to use the assets to the Council. The Council has completed a school by school assessment across the different types of schools it controls within the district. Judgements have been made in applying IAS16 Property, Plant and Equipment in determining the arrangements in place, and the subsequent accounting treatment of the land and building assets.

Investment Property

Following consideration of guidance in the Code and relevant accounting standards (IAS40 and IPSAS 16), the Council has made a judgement that a number of its properties continue to be held solely to earn income or for the generation of capital growth under the Capital Strategy, and not for operational use through delivery of services or service objectives. The Council has therefore classified material assets as Investment property, rather than as operational Property, Plant and Equipment. See Note 25.

Group accounting

The Council has interests in entities which fall within the group boundary of the Council on the grounds of control under the Code and relevant accounting standards (IFRS10 Subsidiaries, and IFRS11 Joint Ventures). Narrative disclosures regarding these relationships have been made in the related party transactions note (Note 23). The majority of these interests are judged not to significantly impact on the Council's overall net assets or the Comprehensive Income and Expenditure Statement. However, during 2021/22, the transactions of the Council's subsidiary, North Somerset Environment Company Ltd became material. When consolidated with the Council's single entity accounts, the analysis of income and expenditure on the face of the Group Comprehensive Income and Expenditure Statement, and movements in reserves on the Group Movements in Reserves Statement, are judged to differ materially from the single entity accounts, although the 'bottom line' of these statements are not materially affected. The Council has therefore made a judgement that consolidated group financial statements are now required.

Technical Notes, Judgements and Assumptions

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from these estimates. Whilst Covid-19, Brexit, the war in Ukraine, and changes in the wider economic outlook, may have impacted on the value of these estimates, there have been no significant changes to the basis of these estimates compared to the previous year. The items in the Council's Balance Sheet at 31 March 2022 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Fair Value Measurements - Investment Property

Investment properties are measured at Fair Value in line with the Council's accounting policies. The value of these assets is determined using calculations and estimation techniques by the Council's valuers following Royal Institution of Chartered Surveyors (RICS) guidance. Asset values are influenced by market forces, income or cost related information, all of which may be subject to volatility and estimation uncertainties. In reaching their valuations, and in assessing whether asset values have been impaired, the Council's valuers have also considered Covid-19 factors such as reductions in property rental values and occupancy rates, although recognising that without being able to predict the longevity and severity of the impact of Covid-19 and wider economic factors on the economy, it has been difficult to value investment property assets.

Where possible, the inputs to these valuations are based on observable data. However, where unobservable inputs are required in establishing fair values, estimation techniques are used. These estimates typically include considerations such as uncertainty and risk. The significant unobservable inputs used in the fair value measurement of Investment Property include management assumptions regarding rent growth, vacancy levels and discount rates.

Significant changes in any of the unobservable inputs would result in a significant change in the fair value measurement for the properties. As noted in Note 25, the carrying value of Investment Property assets at the Balance Sheet date is £45.7m (2020/21 £44.8m). It is estimated that a 1% change in the Fair Values of Investment property would result in a change of approximately £0.5m in asset values (2020/21 £0.4m). Hence a change in valuation of the order of 14% (2020-21 14%) would be likely to be considered material to the Council's accounts.

Further information about the valuation techniques and inputs used in determining the fair value of the Council's investment property, and the impact of changes on the fair value are included in Note 25.

Property, Plant and Equipment – Valuation

Asset valuations are based on market prices and are periodically reviewed to ensure that the Council does not materially misstate its non-current assets. The Council's external valuers provided valuations as at 1 January 2022 for a proportion of its operational portfolio. All operational properties were also reviewed to ensure values reflect current values. This was done by undertaking a desktop re-valuation of those assets, using national indices (notably IPD and BCIS), and consideration of other local factors. This review confirmed that the net book value of PPE assets in the accounts is materially in line with their current value.

Technical Notes, Judgements and Assumptions

Any revaluation of assets either upward or downward would be reflected in the Council's asset base. An increase in estimated valuations would result in increases to the Revaluation Reserve and / or reversals of previous negative revaluations to the Comprehensive Income and Expenditure Statement and / or gains being recorded as appropriate in the Comprehensive Income and Expenditure Statement.

As noted in Note 24, the carrying value of Property, Plant and Equipment assets at the Balance Sheet date is £391.5m (2020/21 £383.2m). It is estimated that a 1% change in net book asset values would result in a change of approximately £3.9m (2020/21 £3.8m). Hence a change in net book value of the order of 1.7% (2020/21 1.7%) would be likely to be considered material to the Council's accounts.

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 by the Avon Pension Fund to provide the Council and other member bodies with expert advice about the assumptions to be applied.

As noted in Note 35, the carrying value of net liability arising from defined benefit pensions obligations at the Balance Sheet date is £266.0m (2020/21 £298.9m). The effects of changes in individual assumptions can have a significant impact on the value of the net pensions liability. These are summarised in Note 35.2. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension deficit of the Local Government Pension Scheme (LGPS) of £11.7m (2020/21 £11.6m), and a decrease of £0.2m (2020/21 £0.2m) of the Teachers Unfunded Discretionary Benefits.

3. Material items of income and expenditure

Covid grant funding - During the year material amounts of grant funding were received from central government to support Council functions, and for distribution to support local businesses. Where appropriate, these grants have been treated as income in the Comprehensive Income & Expenditure Statement, or included in the Balance Sheet as Capital and Revenue Receipts in Advance. The impact of these grants is summarised in Notes 13 and 14.

Loss on disposal on schools transferring to academy status - As in previous years, the Council has incurred a loss on disposal as schools transfer to academy status with nil sales proceeds. This loss totals £15.4m (2020/21 £6.4m). This amount is increased over the previous year due to the transfer of five primary schools to academy status in the current year, compared to two in 2020/21. The value of the Property, Plant and Equipment assets disposed of is set out in Note 24.3, and the loss is included in the Schools line in the Cost of Services, and in Note 11 - Other operating Income and Expenditure. The loss does not impact on the Council's usable reserves, as it is debited to the unusable Capital Adjustment Account in Note 9.3.

Funding received from Bristol, North Somerset, South Gloucestershire Clinical Commissioning Group (BNSSG CCG) - the Council entered into further s256 agreements with the CCG before the end of the financial year which enabled it to receive additional funding. These sums related to the s256 agreements for Integrated Care and Healthier Together matched funding, neither of which were included within the approved budget. The additional income totalled £8.29m, and was therefore considered material. The funding has been taken as income, as no conditions on the grant funding were judged to be outstanding, but has been carried forward in the Adults departmental earmarked

Technical Notes, Judgements and Assumptions

reserves, and the Healthier Together matched funding reserve, to fund spending in future years. See Note 21 Joint arrangements and Note 8.2 Earmarked Usable Reserves.

4. Events after the reporting period

The draft Statement of Accounts were authorised for issue by the Chief Financial Officer on 7 July 2022. Events taking place after this date are not reflected in the financial statements or notes.

Where events taking place before this date provided information about conditions existing at 31 March 2022, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

The financial statements and notes have not been adjusted for the any such events.

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

The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the Code) requires the Council to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted.

New or amended international accounting standards that have been issued and will be adopted by the Code in 2022/23 are:

- Annual improvements to IFRS standards 2018–2020:
 - IFRS 1 (First-time adoption)
 - IAS 37 (Onerous contracts)
 - IFRS 16 (Leases)
 - IAS 41 (Agriculture)
- Property, plant and equipment: proceeds before intended use (amendments to IAS 16)

None of these changes are expected to have a significant effect on the Council's Statement of Accounts from 1 April 2022.

The CIPFA/LASAAC Local Authority Accounting Code Board (CIPFA/LASAAC) has deferred the implementation of IFRS 16 - Leases for a further two years to the 2024/25 Code. IFRS16 will now be applied from 1 April 2024. An appendix to the 2021/22 Code sets out the expected changes by CIPFA/LASAAC in relation to the adoption of IFRS 16. The contents of this appendix do not have the authority of the Code. The Council has not undertaken early adoption of IFRS 16.

This change in accounting policy for leases will bring fundamental changes for the way the Council accounts for leases where it acts as lessee. Changes include:

- all leases as lessee will be included on the Balance sheet – except for:
 - leases of 12 months or less (short-term leases)
 - leases of low value assets
- the Lessee will recognise a right-of-use asset and a lease liability on the Balance sheet, and depreciation of leased assets and interest on lease liabilities through the I&E (essentially current 'finance lease' accounting).
- the lease definition will be expanded to include nil consideration arrangements.
- lessor accounting remains relatively unchanged.

The impact of implementation of IFRS 16 on the Council's financial statements is not currently known and is not reasonably estimable.

Technical Notes, Judgements and Assumptions

6. Prior Period Adjustments

Highways network assets infrastructure

The disclosure and valuation of Infrastructure assets under the Code of Practice on Local Government Accounting is currently subject to consultation. Under draft guidance, disclosures include only the Net Book Value of infrastructure assets, rather than separate disclosure of accumulated cost and depreciation.

Hence Infrastructure assets have been excluded from the Property, Plant and Equipment disclosure in Note 24.1 above, which includes accumulated cost and depreciation, and included in a separate table in Note 24.2, which details movements in Net Book Value only.

The accounting policy for Property, Plant and Equipment has been updated to include clarification of the accounting treatment of Infrastructure assets. The Council judges that there has been no change in accounting policy, and hence the change in disclosure is not considered to be a prior period adjustment.

The change in disclosure has no impact on the Net Book Value of the Property, Plant and Equipment assets, including Infrastructure, included in the Balance Sheet.

Other re-statements:

Re-organisation of Council management structure

In 2020/21, the Council re-organised its managerial structure, to form two new Directorates, the Adult Social Services and Children's Services directorates, which were previously included in the People and Communities directorate.

The segmental reporting of the Council's financial performance to members was based on the previous directorate structure throughout 2020/21. However, reports to members used the revised directorate structure during the 2021/22 financial year.

To reflect the analysis reported to members, comparators to the analysis of income and expenditure provided in the Statement of Comprehensive Income and Expenditure, and the segmental analysis reported in Note 10, the Expenditure and Funding Analysis, and its supporting notes, have been re-stated to reflect the revised structures.

This re-classification has nil impact on the net cost of other services, and the overall net cost of services.

Technical Notes, Judgements and Assumptions

Restatement of CIES prior year comparators

	2020/2021 Original Presentation			2020/2021 As re-stated		
	Gross Exp £000	Income £000	Net Exp £000	Gross Exp £000	Income £000	Net Exp £000
People & Communities						
Adult Social Care	115,000	(41,116)	73,884	0	0	0
Housing Services	4,743	(3,650)	1,093	0	0	0
Children & Young People	38,326	(5,550)	32,776	0	0	0
Schools Budgets & Grants	57,551	(56,737)	814	0	0	0
Total	215,620	(107,053)	108,567	0	0	0
Restatement:						
Adult Social Services						
Adult Social Care	0	0	0	115,000	(41,116)	73,884
Housing Services	0	0	0	4,743	(3,650)	1,093
	0	0	0	119,743	(44,766)	74,977
Children's Services						
Children's Services	0	0	0	38,326	(5,550)	32,776
Schools Budgets & Grants	0	0	0	57,551	(56,737)	814
	0	0	0	95,877	(62,287)	33,590
Total				215,620	(107,053)	108,567
Overall impact on Cost of services				0	0	0

Restatement of Note 10 Expenditure and Funding Analysis prior year comparators

	2020/2021 Original Presentation					
	Net Out-turn Position Reported to Members £000	Transfers (To) / From Reserves £000	Reallocation of Overheads, Precepts & Cap Fin £000	Net Expenditure Chargeable to General Fund Balances £000	Adj Between Funding & Accounting Basis (Note 10.1) £000	Net Expenditure in the CI&ES £000
People & Communities						
Adult Social Care	82,200	(1,511)	(7,365)	73,324	560	73,884
Housing Services	1,306	(390)	103	1,018	75	1,093
Children & Young People	31,843	(28)	306	32,122	654	32,776
Schools Budgets & Grants	0	(2,614)	0	(2,614)	3,428	814
Total	115,349	(4,543)	(6,957)	103,850	4,717	108,567
Restatement:						
	2020/2021 As restated					
	Net Out-turn Position Reported to Members £000	Transfers (To) / From Reserves £000	Reallocation of Overheads, Precepts & Cap Fin £000	Net Expenditure Chargeable to General Fund Balances £000	Adj Between Funding & Accounting Basis (Note 10.1) £000	Net Expenditure in the CI&ES £000
Adult Social Services						
Adult Social Care	82,200	(1,511)	(7,365)	73,324	560	73,884
Housing Services	1,306	(390)	103	1,018	75	1,093
	83,506	(1,901)	(7,262)	74,342	635	74,977
Children's Services						
Children's Services	31,843	(28)	306	32,122	654	32,776
Schools Budgets & Grants	0	(2,614)	0	(2,614)	3,428	814
	31,843	(2,642)	306	29,508	4,082	33,590
Total	115,349	(4,543)	(6,957)	103,850	4,717	108,567
Overall impact	0	0	0	0	0	0

Technical Notes, Judgements and Assumptions

Restatement of Note 10.1 to the Expenditure and Funding Analysis per prior comparators

	2020/2021 Original Presentation			
	Adjustment for Capital Purposes (Note 10.2.1) £000	Net Charge for the Pensions Adj (Note 10.2.2) £000	Other Statutory Adjustments (Note 10.2.3) £000	Total Statutory Adjustments (Note 10) £000
Adult Social Care				
Adult Social Care	75	426	59	560
Housing Services	4	61	10	75
Children & Young People	115	480	59	654
Schools Budgets & Grants	1,359	(1,335)	3,404	3,428
Total	1,553	(368)	3,532	4,717
Restatement:	2020/2021 As re-stated			
	Adjustment for Capital Purposes (Note 10.2.1) £000	Net Charge for the Pensions Adj (Note 10.2.2) £000	Other Statutory Adjustments (Note 10.2.3) £000	Total Statutory Adjustments (Note 10) £000
Adult Social Services				
Adult Social Care	75	426	59	560
Housing Services	4	61	10	75
	79	487	69	635
Childrens Services				
Children's Services	115	480	59	654
Schools Budgets & Grants	1,359	(1,335)	3,404	3,428
	1,474	(855)	3,463	4,082
Total	1,553	(368)	3,532	4,717
Overall impact	0	0	0	0

Notes to the Movement in Reserves Statement

7. Adjustments between accounting basis and funding basis under statutory provisions

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

2021/2022 ADJUSTMENTS	Note	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Unusable Reserves £000
Adjustments to Revenue Resources					
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:					
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account):					
Charges for depreciation of non-current assets	9.3	(12,600)	0	0	12,600
Charges for impairment of non-current assets	9.3	(6,331)			6,331
Revaluation losses on Property, Plant and Equipment	9.3	(1,122)	0	0	1,122
Movements in the fair value of Investment Properties	9.3	(410)	0	0	410
Revenue expenditure funded from capital under statute	9.3	(5,517)	0	0	5,517
Net gain or loss on sale or de-recognition of non-current assets and non-current assets held for sale	9.3	(19,584)	0	0	19,584
Capital grants and contributions credited to the Comprehensive Income & Expenditure Statement	9.3	35,746	0	0	(35,746)
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	8.4	4,630	0	(4,630)	0
Financial instruments (transferred to the Financial Instruments	9.1	(50)	0	0	50
Council tax and NDR (transfers to or from Collection Fund Adjustment	9.4	10,812	0	0	(10,812)
Pensions costs (transferred to or from the Pensions Reserve)	9.5	(8,657)	0	0	8,657
Holiday pay (transferred to or from the Accumulated Absences Reserve)	9.1	512	0	0	(512)
Remeasurement of pooled Financial Instruments (transferred to the Pooled Investment Funds Adjustment Account)	9.1	588	0	0	(588)
Dedicated School Grant Deficit	9.6	(6,297)	0	0	6,297
Total Adjustments to Revenue Resources		(8,280)	0	(4,630)	12,910
Adjustments between Revenue and Capital Resources					
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	8.3	3,427	(3,427)	0	0
Payments to the Government housing capital receipts pool (funded by a transfer from the Capital Receipts Reserve)	8.3	(5)	5	0	0
Statutory provision for the repayment of debt (MRP) (transfer from the Capital Adjustment Account)	9.3	5,968	0	0	(5,968)
Capital expenditure financed from General Fund revenue balances (transfer from the Capital Adjustment Account)	9.3	1,576	0	0	(1,576)
Total Adjustments between Revenue and Capital Resources		10,966	(3,422)	0	(7,544)
Adjustments to Capital Resources					
Use of the Capital Receipts Reserve to finance capital expenditure	8.3, 9.3	0	2,109	0	(2,109)
Application of capital grants to finance capital expenditure	8.4, 9.3	0	0	1,136	(1,136)
Write down of long term debtor on receipt of loan principal	8.3, 9.3	0	(22)	0	22
Cash receipts in relation to deferred capital receipts	8.3, 9.1	0	(6)	0	6
Total Adjustments to Capital Resources		0	2,081	1,136	(3,217)
TOTAL ADJUSTMENTS		2,686	(1,341)	(3,494)	2,149

Notes to the Movement in Reserves Statement

2020/2021 ADJUSTMENTS	Note	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Unusable Reserves £000
Adjustments to Revenue Resources					
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory					
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account):					
Charges for depreciation of non-current assets	9.3	(11,661)	0	0	11,661
Charges for impairment of non-current assets	9.3	(9,136)			9,136
Revaluation losses on Property, Plant and Equipment	9.3	(2,762)	0	0	2,762
Movements in the fair value of Investment Properties	9.3	(862)	0	0	862
Revenue expenditure funded from capital under statute	9.3	(4,575)	0	0	4,575
Net gain or loss on sale or de-recognition of non-current assets and non-current assets held for sale	9.3	(7,353)	0	0	7,353
Capital grants and contributions credited to the Comprehensive Income & Expenditure Statement	9.3	32,317	0	0	(32,317)
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	8.4	1,785	0	(1,785)	0
Financial instruments (transferred to the Financial Instruments Adjustments Account)	9.1	295	0	0	(295)
Council tax and NDR (transfers to or from Collection Fund Adjustment Account)	9.4	(14,919)	0	0	14,919
Pensions costs (transferred to or from the Pensions Reserve)	9.5	(6,377)	0	0	6,377
Reserve)	9.1	(369)	0	0	369
Remeasurement of pooled Financial Instruments (transferred to the Pooled Investment Funds Adjustment Account)	9.1	405	0	0	(405)
Dedicated School Grant Deficit	9.6	(3,303)	0	0	3,303
Total Adjustments to Revenue Resources		(26,515)	0	(1,785)	28,300
Adjustments between Revenue and Capital Resources					
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve					
	8.3	2,511	(2,511)	0	0
Payments to the Government housing capital receipts pool (funded by a transfer from the Capital Receipts Reserve)	8.3	(7)	7	0	0
Statutory provision for the repayment of debt (MRP) (transfer from the Capital Adjustment Account)	9.3	5,764	0	0	(5,764)
Capital expenditure financed from General Fund revenue balances (transfer from the Capital Adjustment Account)	9.3	3,714	0	0	(3,714)
Total Adjustments between Revenue and Capital Resources		11,982	(2,504)	0	(9,478)
Adjustments to Capital Resources					
Use of the Capital Receipts Reserve to finance capital expenditure					
	9.3	0	2,433	0	(2,433)
Application of capital grants to finance capital expenditure	8.4	0	0	141	(141)
Write down of long term debtor on receipt of loan principal	8.3	0	(20)	0	20
Cash receipts in relation to deferred capital receipts	9.1	0	(10)	0	10
Total Adjustments to Capital Resources		0	2,403	141	(2,544)
TOTAL ADJUSTMENTS		(14,533)	(101)	(1,644)	16,278

Notes to the Movement in Reserves Statement

8. Usable Reserves

8.1. Summary of Usable Reserves

Movements in the authority's usable reserves are detailed in the Movement in Reserves Statement. The Council's usable reserves are those which can be applied to fund expenditure or reduce local taxation, along with other ring-fenced reserves.

	Balance 1 April 2021 £000	Net Movement in Year £000	Balance 31 March 2022 £000	Further Details
General Fund Balance	(9,053)	(691)	(9,744)	
Earmarked Reserves - School Balances (re-stated)				
- LMS Schools	(2,325)	(676)	(3,001)	
- Other Schools Balances	(334)	(53)	(387)	
Other Earmarked Revenue and Capital Reserves	(72,813)	(12,942)	(85,755)	Note 8.2
Total General Fund and Earmarked Reserves	(84,525)	(14,362)	(98,887)	Note 10
Usable Capital Financing Reserves				
- Capital Receipts Reserve	(12,129)	(1,342)	(13,471)	Note 8.3
- Capital Grants Unapplied	(4,690)	(3,494)	(8,184)	Note 8.4
Total Usable Capital Financing Reserves	(16,819)	(4,836)	(21,655)	
Total Usable Reserves	(101,344)	(19,198)	(120,542)	

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 at the end of the financial year.

Earmarked Reserves – Schools Balances

School reserves relate to balances held by schools under the system of delegation of management responsibility and budgets to schools.

A deficit balance relating to Dedicated Schools Grant funding is carried forward in an Unusable reserve (see Note 9) under a statutory override until at least 2023/24. This deficit will be recovered from future DSG settlements, rather than from wider General Fund balances - see Note 15.

8.2. Other Earmarked Reserves

This note sets out the amounts set aside from the General Fund balances in non-schools earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure.

Notes to the Movement in Reserves Statement

	Balance 31 March 2020 £000	Transfers between Reserves £000	Transfers Out £000	Transfers In £000	Balance 31 March 2021 £000	Transfers between Reserves £000	Transfers Out £000	Transfers In £000	Balance 31 March 2022 £000
Earmarked Revenue Reserves (Non-schools)									
Insurance Reserves	(2,897)	0	0	(11)	(2,908)	0	744	0	(2,164)
Severance Reserves	(1,250)	0	0	(5)	(1,255)	0	0	(34)	(1,289)
Transformation Reserves	(991)	236	80	(2,811)	(3,486)	1,147	0	0	(2,339)
Economic & Regeneration Reserve	(987)	(1)	75	(1,255)	(2,168)	(129)	1,020	(423)	(1,700)
City-Deal Smoothing Reserve	(4,332)	0	4,331	(5,327)	(5,328)	0	5,327	(5,891)	(5,892)
Financial Risk Reserve	(3,184)	570	1,429	(35)	(1,220)	194	0	(1,770)	(2,796)
Collection Fund Smoothing Reserve	(1,385)	0	2,283	(17,007)	(16,109)	0	15,048	(8,968)	(10,029)
Covid Response Funding Reserve	(5,911)	0	5,911	(860)	(860)	0	0	(3,644)	(4,504)
Healthier Together Matched Funding Grant	0	0	0	0	0	0	0	(2,472)	(2,472)
Other Corporate reserves	(250)	0	250	(540)	(540)	(50)	527	(430)	(493)
Departmental reserves:									
Adult Social Services	(1,113)	(129)	160	(2,014)	(3,096)	0	383	(6,271)	(8,984)
Children's Services	(1,868)	(140)	701	(734)	(2,041)	45	389	(1,276)	(2,883)
Public Health & Regulatory Services	(416)	(37)	1	(430)	(882)	(450)	5	(4,399)	(5,726)
Place	(3,588)	(892)	2,340	(10,908)	(13,048)	(1,139)	5,511	(4,415)	(13,091)
Corporate Services	(3,550)	393	387	(1,436)	(4,206)	381	450	(1,958)	(5,333)
Housing Property Funds	(900)	0	0	(72)	(972)	0	0	(88)	(1,060)
Earmarked Deposits & Contributions	(7,638)	0	1,497	(2,354)	(8,495)	733	811	(734)	(7,685)
Total Non- Schools Earmarked Revenue Reserves	(40,260)	0	19,445	(45,799)	(66,614)	732	30,215	(42,773)	(78,440)
Earmarked Capital Reserves									
General Capital Reserves	(2,730)	0	0	0	(2,730)	0	0	0	(2,730)
Earmarked Capital Reserves	(1,155)	0	300	(2,614)	(3,469)	(733)	282	(665)	(4,585)
Total Earmarked Capital Reserves	(3,885)	0	300	(2,614)	(6,199)	(733)	282	(665)	(7,315)
Total Earmarked Revenue and Capital Reserves	(44,145)	0	19,745	(48,413)	(72,813)	(1)	30,497	(43,438)	(85,755)

The purpose of each of the above reserves is as follows:

Reserve	Purpose
Insurance Reserve	Resources set-aside to fund uninsured risks and losses; movements in claim values; and claims which may have occurred but have not yet been reported to the Council.
Severance Reserve	To fund severance costs anticipated in future years.
Transformation Reserves	Resources set-aside to fund the one-off investment costs of Transformation programmes and initiatives which will improve service delivery and realise financial benefits in future years.
Economic & Regeneration Reserves	Resources identified to fund potential investment in areas which could stimulate, enhance or yield future economic and financial benefit for the area, together with funding set-aside for the Driving Growth Board programme.
City Deal Smoothing Reserve	Reserve to smooth the financial impact of transactions associated with the City Region Deal arrangement. Balances largely relate to cash contributed by the Council which is yet to be committed by the Pool.

Notes to the Movement in Reserves Statement

Financial Risk Reserve	Resources set-aside to finance strategic risks and to fund one-off invest-to-save proposals or key priorities identified within the Corporate or Medium-Term Financial Plans.
Collection Fund Smoothing Reserve	Resources set-aside to smooth the impact on the Council's revenue budget for taxpayers.
Covid Response Funding Reserve	Funding received from Central Government relating to the emergency Covid-19 response before the year end, to be applied in the new financial year.
Healthier Together Matched Funding Grant	Monies received from the Clinical Commissioning Group to provide match funding against the Council's resource for projects aimed at improving the health of residents within North Somerset.
Adult Social Services	Resources set-aside to fund a range of additional project related costs within Adult Social Care, such as the Discharge to Assess programme and ongoing Covid-19 support to Social Care providers. Also includes funds set aside to improve services for the homeless and rough sleepers.
Children's Services	Includes funds set aside to achieve specific Improvement related outcomes following the implementation and delivery of a range of projects; for example, enhancements to systems, additional staffing resources within the Special Educational Needs and Disabilities team, family support and safeguarding, specialist provision and family well-being.
Public Health & Regulatory Services	Funds set aside to enable the Council to discharge its core public health statutory responsibilities as well as funding for regulatory services, which includes a replacement ICT system. Some legacy Covid funding is included within the year-end balance.
Place	Funds set aside to finance specific Council investment in service provision to benefit the community such as Highways and Community Reassurance programmes. Monies received from unconditional grants such as; LSTF Public Transport, Lead Local Flood, Local Development Orders and Damaged Road grants. Monies also set-aside for planned future costs including major planning appeals and strategic projects.
Corporate Services – Including Partnership Funds	Includes funds set aside to provide additional capacity or external resources across the directorate to deliver transformational change, as well as to fund future service improvements and mitigate a range of risks managed by the directorate. Partnership funds are those held under the Council's role as an accountable body.
Housing Property Funds	Reflects monies held in sinking funds to be used for repairs on leasehold properties.
Earmarked Deposits and Contributions	Monies held by the Council to fund future costs arising from development activity.
General Capital Reserve	A general reserve available to finance approved capital expenditure.
Earmarked Capital Reserve	Specific capital reserves earmarked for use in delivery of approved capital investment projects.

Notes to the Movement in Reserves Statement

8.3. 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 capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

	Note	2020/21 £000	2021/22 £000
Balance brought forward - 1 April		(12,029)	(12,130)
Transfer of cash sale proceeds credited as part of the gain/loss on disposal of non-current assets to the Comprehensive Income and Expenditure Statement	7	(2,511)	(3,427)
Financing payment to the Government Housing Capital Receipts Pool	7	7	5
Use of Capital Receipts to finance new capital expenditure	7, 9.3	2,433	2,109
Transfer from the Capital Adjustment Account to reflect repayment of long-term debtor	7, 9.3	(20)	(22)
Transfer from Deferred Capital Receipts Reserve	7, 9.1	(10)	(6)
Balance carried forward - 31 March		(12,130)	(13,471)

8.4. Capital Grants Unapplied

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

	Note	2020/21			2021/22		
		CIL £000	Other £000	Total £000	CIL £000	Other £000	Total £000
Balance brought forward - 1 April		(1,618)	(1,429)	(3,046)	(2,242)	(2,448)	(4,690)
Transfer to Capital Adjustment Account to finance capital spend	7, 9.3	114	27	141	250	886	1,136
Capital Grants and Contributions unapplied, credited to the Comprehensive Income and Expenditure	7	(738)	(1,047)	(1,785)	(2,874)	(1,756)	(4,630)
Balance carried forward - 31 March		(2,242)	(2,448)	(4,690)	(4,866)	(3,318)	(8,184)

Notes to the Movement in Reserves Statement

9. Unusable Reserves

9.1. Summary of Unusable Reserves

	Balance 1 April 2021 £000	Net Movement in Year £000	Balance 31 March 2022 £000	Note
Revaluation Reserve	(92,270)	809	(91,461)	9.2
Capital Adjustment Account	(152,057)	(10,925)	(162,982)	9.3
Collection Fund Adjustment Account	15,358	(10,811)	4,547	9.4
Pensions Reserve	298,881	(32,895)	265,986	9.5
Dedicated Schools Grant Adjustment Account	7,150	6,297	13,447	9.6
Financial Instruments Adjustment Account	110	50	160	
Accumulated Absences Account	1,645	(512)	1,133	
Deferred Capital Receipts Reserve	(59)	6	(53)	
Pooled Investment Funds Adjustment Account	545	(588)	(43)	
Total Unusable Reserves	79,303	(48,569)	30,734	

9.2. Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment and Intangible Assets. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised

	2020/21 £000	2021/22 £000
Balance brought forward - 1 April	(73,712)	(92,271)
Upward revaluation of assets	(30,330)	(11,749)
Downward revaluation of assets and impairment losses not charged to the Surplus / Deficit on the Provision of Services	6,980	2,583
Surplus / deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(23,350)	(9,166)
Difference between fair value depreciation and historical cost depreciation	2,094	2,815
Accumulated gains written out on assets sold or scrapped	2,697	7,161
Amount written off to the Capital Adjustment Account (Note 9.3)	4,791	9,976
Balance carried forward - 31 March	(92,271)	(91,461)

Notes to the Movement in Reserves Statement

9.3. 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.

	<i>Note</i>	2020/21 £000	2021/22 £000
Balance brought forward - 1 April		(139,266)	(152,057)
<u>Reversal of Items relating to Capital Expenditure debited or credited to the Comprehensive Income and Expenditure Statement</u>			
Charges for Depreciation of Non Current Assets	7	11,661	12,600
Charges for Impairment of Non Current Assets	7	9,136	6,331
Revaluations Losses on Property, Plant and Equipment	7	2,762	1,122
Movements in the Market Value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	7	862	410
Revenue Expenditure Financed by Capital Under Statute	7	4,575	5,517
Amounts of non-current assets written off on disposal or sale as part of the Gain or Loss on Disposal to the Comprehensive Income and Expenditure Statement	7	7,353	19,584
		<u>36,349</u>	<u>45,564</u>
<u>Amounts transferred from the Revaluation Reserve</u>			
Difference between fair value depreciation and historical cost depreciation	9.2	(2,094)	(2,815)
Accumulated gains written out on disposal or sale of non-current assets	9.2	(2,697)	(7,161)
		<u>(4,791)</u>	<u>(9,976)</u>
Net amount written out of the cost of non-current assets consumed in the year		<u>31,558</u>	<u>35,588</u>
<u>Amounts transferred to the Capital Receipts Reserve</u>			
Write down of long-term debtor	7, 8.3	20	22
		<u>20</u>	<u>22</u>
<u>Capital Financing Applied in the year</u>			
Capital Grants and Contributions credited to the Comprehensive Income and	7	(32,317)	(35,746)
Use of Capital Receipts Reserve to finance new capital expenditure	7, 8.3	(2,433)	(2,109)
Application of Grants and Contributions to capital financing from the Capital Grants Unapplied Account	7, 8.4	(141)	(1,136)
Statutory provision for the financing of capital investment charged against the General Fund Balance	7	(5,764)	(5,968)
Capital expenditure charged against the General Fund Balance	7	(3,714)	(1,576)
		<u>(44,369)</u>	<u>(46,535)</u>
Balance carried forward - 31 March		<u>(152,057)</u>	<u>(162,982)</u>

9.4. Collection Fund Adjustment Account

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

	<i>Note</i>	2020/21 £000	2021/22 £000
Balance brought forward - 1 April		439	15,358
Amount by which income credited to the Comprehensive Income and Expenditure Statement is different from income calculated for the year in accordance with statutory requirements:			
- Council Tax		819	(883)
- Business Rates		13,516	(9,739)
- Business Rates: Disregarded Amount		584	(189)
	7	<u>14,919</u>	<u>(10,811)</u>
Balance carried forward - 31 March		<u>15,358</u>	<u>4,547</u>

Notes to the Movement in Reserves Statement

9.5. 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 amounts shown below bring together adjustments for the Local Government Pension Scheme and Unfunded Teachers' Discretionary Benefits (Teacher's)(see Note 35.1).

	2020/21			2021/22		
	LGPS £000	Teachers' £000	Total £000	LGPS £000	Teachers' £000	Total £000
Balance brought forward - 1 April	246,833	21,402	268,235	277,298	21,582	298,880
Remeasurements of the net defined benefit liability:						
- Return on plan assets (Gains) / Losses	(62,143)	0	(62,143)	(37,872)	0	(37,872)
- Experience (Gains) / Losses	(14,901)	(337)	(15,238)	2,098	60	2,158
- (Gains) / Losses on financial assumptions	99,964	1,685	101,649	(12)	186	174
- (Gains) / Losses on demographic assumptions	0	0	0	(5,806)	(205)	(6,011)
Total Remeasurements of the net defined benefit liability	22,920	1,348	24,268	(41,592)	41	(41,551)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	18,365	494	18,859	21,032	437	21,469
Employer's pensions contributions and direct payments to pensioners payable in the year	(10,820)	(1,662)	(12,482)	(11,220)	(1,592)	(12,812)
Amounts by which Pension costs charged to the Comprehensive Income Statement is different from that chargeable in accordance with statutory requirements	7,545	(1,168)	6,377	9,812	(1,155)	8,657
Balance carried forward - 31 March	277,298	21,582	298,880	245,518	20,468	265,986

9.6. Dedicated Schools Grant Adjustment Account

The Dedicated Schools Grant Adjustment Account holds movements on the accumulated DSG Deficit. Under statutory arrangements movements on the accumulated DSG Deficit are not charged against the General Fund.

	Note	2020/21 £000	2021/22 £000
Balance brought forward - 1 April		0	7,150
Re-statement of opening balance		3,847	0
Amount by which the Dedicated schools grant deficit for the year charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from deficit chargeable in the year in accordance with statutory requirements	7, 15	3,303	6,297
Balance carried forward - 31 March		7,150	13,447

Notes to the Comprehensive Income and Expenditure Statement

10. Expenditure and Funding Analysis

	Note	2021/2022					
		Net Out-turn Position Reported to Members £000	Transfers (To) / From Reserves £000	Reallocation of Overheads, Precepts & Capital Financing £000	Net Expenditure Chargeable to General Fund Balances £000	Adj Between Funding & Accounting Basis (Note 10.1) £000	Net Expenditure in the CI&ES £000
Adult Social Services							
Adult Social Care		67,927	(8,320)	0	59,607	903	60,510
Housing Services		378	(253)	0	125	722	847
		68,305	(8,573)	0	59,732	1,625	61,357
Children's Services							
Children's Services		26,174	(920)	0	25,254	1,589	26,843
Schools Budgets & Grants		0	(887)	0	(887)	12,803	11,916
		26,174	(1,807)	0	24,367	14,392	38,759
Place		31,405	3,578	0	34,983	17,638	52,621
Corporate Services		24,177	175	0	24,352	(1,256)	23,096
Public Health & Regulatory services		871	(4,924)	0	(4,053)	288	(3,765)
Non Service		15,822	(9,382)	(6,399)	41	(40)	1
Capital Financing & Interest		10,669	(385)	(10,284)	0	0	0
Net Cost of Services	<i>CIES</i>	177,423	(21,318)	(16,683)	139,422	32,647	172,069
Other Income and Expenditure		(177,423)	6,955	16,683	(153,785)	(35,334)	(189,119)
(Surplus) / Deficit on Provision of Services	<i>CIES</i>	(0)	(14,363)	0	(14,363)	(2,687)	(17,050)

Notes to the Comprehensive Income and Expenditure Statement

	Note	2020/2021 As re-stated					
		Net Out-turn Position	Transfers (To) / From	Reallocation of	Net Expenditure	Adj Between Funding	Net Expenditure in
		Reported to Members £000	Reserves £000	Overheads, Precepts & Capital Financing £000	Chargeable to General Fund Balances £000	& Accounting Basis (Note 10.1) £000	the CI&ES £000
Adults Services							
Adult Social Care		82,200	(1,511)	(7,365)	73,324	560	73,884
Housing Services		1,306	(390)	103	1,018	75	1,093
		83,506	(1,901)	(7,262)	74,342	635	74,977
Childrens Services							
Children & Young People		31,843	(28)	306	32,122	654	32,776
Schools Budgets & Grants		0	(2,614)	0	(2,614)	3,428	814
		31,843	(2,642)	306	29,508	4,082	33,590
Place		49,568	(7,230)	(8,879)	33,460	17,978	51,438
Corporate Services		8,766	85	(3,248)	5,603	1,215	6,818
Public Health & Regulatory services		1,626	(428)	(934)	263	135	398
Non Service		15,066	(8,396)	(6,328)	342	0	342
Capital Financing & Interest		10,320	(650)	(9,670)	0	0	0
Net Cost of Services	<i>CIES</i>	200,695	(21,162)	(36,016)	143,518	24,045	167,563
Other Income and Expenditure		(200,695)	(8,908)	36,016	(173,588)	(9,512)	(183,100)
(Surplus) / Deficit on Provision of Services	<i>CIES</i>	(0)	(30,070)	(0)	(30,070)	14,533	(15,537)

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		2020/2021			2021/2022		
		General Fund	GF Earmarked	Total GF and	General Fund	GF Earmarked	Total GF and
		Reserves £000	Reserves £000	Earmarked Reserves £000	Reserves £000	Reserves £000	Earmarked Reserves £000
Opening Balance at 1 April		(9,053)	(41,555)	(50,608)	(9,053)	(75,472)	(84,525)
Re-statement of DSG earmarked reserve		0	(3,847)	(3,847)	0	0	0
Revised Opening balance at 1 April		(9,053)	(45,402)	(54,455)	(9,053)	(75,472)	(84,525)
Net movement in year		0	(30,070)	(30,070)	(691)	(13,671)	(14,362)
Closing Balance at 31 March	<i>8.1</i>	(9,053)	(75,472)	(84,525)	(9,744)	(89,143)	(98,887)

Notes to the Comprehensive Income and Expenditure Statement

10.1. Note to the Expenditure and Funding Analysis - Adjustments Between Funding and Accounting Basis

	Note	2020/2021 As re-stated				2021/2022			
		Adjustment for Capital Purposes (Note 10.2.1) £000	Net Charge for the Pensions Adj (Note 10.2.2) £000	Other Statutory Adjustments (Note 10.2.3) £000	Total Statutory Adjustments (Note 10) £000	Adjustment for Capital Purposes (Note 10.2.1) £000	Net Charge for the Pensions Adj (Note 10.2.2) £000	Other Statutory Adjustments (Note 10.2.3) £000	Total Statutory Adjustments (Note 10) £000
Adult Social Services									
Adult Social Care		75	426	59	560	(191)	1,176	(82)	903
Housing Services		4	61	10	75	569	167	(14)	722
		79	487	69	635	378	1,343	(96)	1,625
Children's Services									
Children's Services		115	480	59	654	265	1,413	(89)	1,589
Schools Budgets & Grants		1,359	(1,335)	3,404	3,428	7,354	(703)	6,152	12,803
		1,474	(855)	3,463	4,082	7,619	710	6,063	14,392
Place		17,476	458	44	17,978	16,034	1,646	(42)	17,638
Corporate Services		1,463	(309)	61	1,215	591	(1,724)	(123)	(1,256)
Public Health & Regulatory services		0	100	35	135	(15)	319	(16)	288
Non Service		0	0	0	0	(40)	0	0	(40)
Net Cost of Services		20,492	(119)	3,672	24,045	24,567	2,294	5,786	32,647
Other Income and Expenditure from		(30,227)	6,496	14,219	(9,512)	(30,347)	6,363	(11,350)	(35,334)
Difference Between the General Fund (Surplus) / Deficit and the Comprehensive Income and Expenditure (Surplus) / Deficit on Provision of Services	10	(9,735)	6,377	17,891	14,533	(5,780)	8,657	(5,564)	(2,687)

Notes to the Comprehensive Income and Expenditure Statement

10.2. Other Expenditure and Funding Analysis Notes

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

10.2.1. Adjustments for Capital Purposes

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

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

10.2.2. Net Charge for the Pensions Adjustments

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

- **Cost of services** - this represents the removal of the employer pension contributions made by the authority as allowed by statute, and their replacement with current service costs and past service costs.
- **Other Income and Expenditure** - Financing and investment income and expenditure – the net interest on the defined benefit liability is charged to the Comprehensive Income and Expenditure Statement.

10.2.3. Other Statutory Adjustments

Other statutory adjustments between amounts debited or credited to the Comprehensive Income and Expenditure Statement and amount payable or receivable to be recognised under statute:

- **Cost of services** - the 'Other Statutory Adjustments' column recognises adjustments to the General Fund for the timing differences re accumulated absences
- **Other income and expenditure**, including:
 - For Financing and investment income and expenditure, the 'Other Statutory Adjustments' column recognises adjustments to the General Fund for the timing differences for premiums and discounts.
 - The charge under Taxation and non-specific grant income and expenditure represents the difference between what is chargeable under statutory regulations

Notes to the Comprehensive Income and Expenditure Statement

for council tax and NDR that was projected to be received at the start of the year, and the income recognised under generally accepted accounting practices in the Code. This is a timing difference, as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

11. Other Operating Expenditure

	2020/21 £000	2021/22 £000
Parish Council precepts	6,040	6,105
Other precepts and levies	288	293
(Gains) / losses on the disposal of non-current assets	4,842	11,568
Council Tax Support hardship expenditure	1,402	70
Total	12,572	18,036

12. Financing and Investment Income and Expenditure

	2020/21 £000	2021/22 £000
Interest payable and similar charges	5,649	6,136
Impairment losses re financial instruments	(11)	19
Net interest on net defined benefit pension liability & administration expense	6,496	6,363
Interest receivable and similar income	(2,567)	(2,758)
Changes in the fair value of investment property	862	410
Total	10,429	10,170

13. Taxation and Non-Specific Grant Income

	2020/21 £000	2021/22 £000
Council Tax Income	(117,088)	(124,451)
Business Rate Income	(17,095)	(27,095)
	(134,183)	(151,546)
Non-ringfenced government grants:		
Revenue Support Grant	(2,167)	(2,179)
New Homes Bonus Grant	(1,771)	(1,382)
Section 31 Grants re Business Rates and Council Tax	(24,513)	(15,380)
Adult Social Care Grants	(5,101)	(5,807)
Covid-19 Response Grant	(8,697)	(4,975)
	(42,249)	(29,723)
Capital grants and contributions	(29,668)	(36,056)
	(71,917)	(65,779)
Total	(206,100)	(217,325)

14. Grant Income

The following grants and contributions were credited to the Comprehensive Income and Expenditure Statement: Grants and contributions credited to services are not separately disclosed on the face of the Comprehensive Statement of Income and Expenditure (CIES), while Non-specific grants and Capital contributions are included in Note 13. The total of Note 13 is subsequently included on the face of the CIES.

Notes to the Comprehensive Income and Expenditure Statement

	2020/21 Total Grants & Cont'ns £000	2021/22			
		Government Revenue Grants £000	Capital Grants £000	Other Grants & Cont'ns £000	Total Grants & Cont'ns £000
Credited to Services					
Adult Social Services					
NHS NS CCG Better Care Fund	(5,633)	0	0	(6,103)	(6,103)
NHS NS CCG Section 256 Agreement	0	0	0	(8,436)	(8,436)
Improved Better Care Fund	(5,857)	(6,780)	0	0	(6,780)
Covid-19 Infection Control Funding	(6,914)	(5,757)	0	0	(5,757)
Other Adult Social Care Services Grants & Contributions	(6,395)	(2,242)	(642)	(4,821)	(7,705)
Housing Services Grants & Contributions	(2,661)	(1,289)	(1,761)	(229)	(3,279)
Children's Services					
Other Children's & Education Services Grants & Contributions	(4,590)	(2,917)	0	(2,976)	(5,893)
Public Health Services Grants	(10,633)	(17,331)	0	(252)	(17,583)
Schools budgets and grants					
Dedicated Schools Grant	(49,052)	(47,973)	0	0	(47,973)
Pupil Premium Grant	(1,004)	(878)	0	0	(878)
Teachers Pay Grant	(848)	0	0	0	0
Universal Infant Free School Meals	(449)	(364)	0	0	(364)
Other Schools & Education Services Grants & Contributions	(4,568)	(818)	(520)	(734)	(2,071)
Corporate Services					
Housing Benefit Subsidy	(43,435)	(40,170)	0	0	(40,170)
Housing Benefit Subsidy Administration	(562)	(513)	0	0	(513)
Other Corporate Services Grants & Contributions	(3,159)	(2,254)	0	(653)	(2,907)
Place					
Covid-19 Discretionary Business Grants	(8,547)	(1,922)	0	0	(1,922)
Other Development & Environment Services Grants & Contributions	(7,302)	(2,170)	(1,398)	(4,771)	(8,339)
Non Service	(1,846)	(287)	0	(1,238)	(1,525)
Total grants and contributions credited to Services	(163,453)	(133,662)	(4,320)	(30,213)	(168,195)
Non-specific Grants and Capital Contributions (Note 13)					
Non-ringfenced grants and contributions	(42,249)	(29,723)	0	0	(29,723)
Capital grants and contributions	(29,668)	0	(36,056)	0	(36,056)
	(71,918)	(29,723)	(36,056)	0	(65,779)
Total grants and contributions	(235,371)	(163,385)	(40,376)	(30,213)	(233,974)

The Council has received capital grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies to be returned to the provider should those conditions not be met. The balances held as Capital grants and contributions Receipts in Advance at the year-end are as follows:

Notes to the Comprehensive Income and Expenditure Statement

	2020/21 £000	2021/22 £000
Local Transport Plan Grant	(1,720)	(1,533)
Early Years Child Care Grant	(99)	(99)
Basic Need Education Grant	(25,251)	(24,946)
Capital Maintenance Education Grant	(797)	(919)
Other Grants	(11,720)	(13,395)
Total Capital Grants Received in Advance	(39,587)	(40,892)
MOD contribution re Winterstoke Bridge	(10,833)	(9,795)
Total Capital Contributions Received in Advance	(10,833)	(9,795)
Total Capital Grants and Contributions Received in Advance	(50,420)	(50,687)
NHS Section 256 Integrated Care Funding	(4,840)	0
Covid-19 Grant Funding	(1,613)	0
Covid-19 Contain Outbreak Management Funding	(4,723)	0
Other grants	(615)	(4,296)
Total Revenue Grants Received in Advance	(11,791)	(4,296)

15. Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance and Early Years (England) Regulations 2018. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG for 2021/22 and the balances carried forward at the year-end are as follows:

	Central Expenditure £000	Individual Schools Budget £000	Total £000
Final DSG for 2021/22 before academy and high needs recoupment			(182,605)
Academy and high needs figure recouped for 2021/22			133,015
Total DSG after academy and high needs recoupment for 2021/22			(49,590)
In year adjustments			1,617
Agreed budgeted / Final budget distribution for 2021/22	(23,606)	(24,367)	(47,973)
Actual central expenditure	30,378	0	30,378
Actual ISB deployed to schools	0	23,892	23,892
(Surplus) / Deficit Carried Forward to 2022/23	6,772	(475)	6,297
DSG unusable reserve at the end of 2020/21 (Surplus) / Deficit			7,150
Addition to DSG unusable reserve at the end of 2021/22 (Surplus) / Deficit			6,297
Total of DSG unusable reserve at the end of 2021/22 (Surplus) / Deficit			13,447
Net DSG position at the end of 2021/22 (Surplus) / Deficit (Note 9.6)			13,447

Notes to the Comprehensive Income and Expenditure Statement

The Department for Levelling Up, Housing and Communities (DLUHC) has made regulations regarding the accounting treatment of DSG deficits, which affect the financial years beginning on 1 April 2020, 1 April 2021 and 1 April 2022.

In line with this guidance, the Council has not charged the on-going DSG deficit to the General Fund, and has instead charged the deficit to an unusable reserve, the Dedicated Schools Grant Adjustment Account, see Note 9.6.

The final DSG for 2021/22 before the academy recoupment figure includes a provision for the early years block. The final allocation for the 2021/22 early years block will be made in July 2022. The basis of this allocation is still under discussion. Any adjustments are to be treated as an 'in year adjustment' to the 2022/23 DSG allocation.

The deficit on the DSG has increased from £7.150m at 31 March 2021 to £13.447m at 31 March 2022 due to the continued and significant increased spending pressures in the High Needs Block, relating to children with Special Educational Needs and Disabilities (SEND). For example, the number of children with an Education and Health Care Plan (EHCP) has increased by around 108% between 2016 and 2021, and 23% increase in the last year. Increasing DSG deficits are a national issue. A national review of SEND is ongoing, with a Green Paper recently published.

Whilst the local Strategic Schools Forum (SSF) has continued to commit to contributing to the spending in the High Needs Block by transferring funding from the Schools Block of the DSG, government policy limits this amount. Movements from the Schools block to the High Needs block have been restricted to 0.5% (£675k) in 2021/22. As a result, and despite additional funding from Central Government, due to the unprecedented levels of demand for specialist provision the deficit is not yet decreasing. The Council has plans to address the deficit by providing more local specialist provision (rather than relying on more expensive out of area provision), increasing early intervention and prevention, and improving commissioning arrangements. This should have a material impact on the in-year deficit by 2023/24.

Officers discussed the Council's deficit management plan the Department for Education in July 2020, and again in September 2021. The Department raised no concerns about the Council's approach, although they are keen to monitor progress against the five key themes of our SEND Improvement Plan, which are as follows:

- Identifying SEND earlier
- Supporting increased inclusion in mainstream schools
- Early Help - right support, right time, right place
- Developing local provision
- Evaluating outcomes and improving the value of high-cost placements
- and for the Council to quantify the likely positive impact on the DSG deficit.

On 17 February 2022, the Council received notification that it is invited to take part in the "safety valve" intervention programme with the DfE in the second half of 2022/23. The aim of the programme is to agree a package of reforms to the high needs system to address the DSG deficit. The programme requires local authorities to develop substantial plans for reforms, with support and challenge from the DfE, to place the DSG and the high needs system as a whole on a sustainable footing. In return, it is likely that the DfE will make a significant contribution towards the historic deficit.

Notes to the Comprehensive Income and Expenditure Statement

16. Income and expenditure

16.1. Expenditure and Income Analysed by Nature

	2020/21 £000	2021/22 £000
Expenditure		
Employee Benefits Expenses	78,484	84,296
Other Services Expenses	286,358	281,613
Depreciation, Amortisation and Impairment	24,015	19,874
Interest paid	7,420	8,401
Precepts and Levies	6,889	6,974
Payments to the Housing Capital Receipts Pool	0	0
(Gains) / losses on the disposal of non-current assets	4,832	16,150
Revenue Expenditure Financed by Capital Under Statute	4,575	5,517
	<u>412,573</u>	<u>422,825</u>
Income		
Fees, Charges and Other Service Income	(50,830)	(50,542)
Interest & Investment Income received	(918)	(733)
Income from Council Tax, Non-Domestic Rates	(134,184)	(151,546)
Government Grants & Contributions	(235,371)	(233,974)
Internal Recharges	(6,807)	(3,080)
	<u>(428,110)</u>	<u>(439,875)</u>
(Surplus) / Deficit on Provision of Services	<u>(15,537)</u>	<u>(17,050)</u>

16.2. Revenue from contracts with service recipients

The Council typically satisfies its performance obligations as services are rendered, or upon completion of a service. Hence no significant contract assets or liabilities have been recognised.

	2020/21 £000	2021/22 £000
Amounts included in the Comprehensive Income and Expenditure Statement for contracts with service recipients:		
Revenue from contracts with service recipients	(49,579)	(45,295)

The total of receivables relating to Revenue from contracts with service recipients which are included in Debtors (Note 27), are disclosed in the Financial Instruments note (Note 31).

17. Members' Allowances

	2020/21 £000	2021/22 £000
Basic Allowances	445	460
Special Responsibility Allowances	225	243
Travel expenses & subsistence	2	1
Total Members' Allowances	<u>672</u>	<u>704</u>

Notes to the Comprehensive Income and Expenditure Statement

18. Officer Remuneration

18.1. Senior Officer Remuneration

The remuneration paid to the Council's senior employees is detailed below. A senior employee is an employee whose salary is more than £150,000 per year, or one whose salary is at least £50,000 and who is:

- the designated head of paid service, a statutory chief officer or a non-statutory chief officer of a relevant body, as defined under the Local Government and Housing Act 1989.
- 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, in particular activities involving the expenditure of money, whether solely or collectively with other persons.

At North Somerset Council the disclosures relate to the Chief Executive Officer and those officers that form the Council's Corporate Leadership Team who report to that post. No bonuses, compensation for loss of office or benefits in kind were paid to senior officers in either year.

Post	2021/2022				Total Remuneration incl. pension contributions £
	Salary (incl. fees and allowances) £	Payments made for NSC elections £	Compensation for Loss of Employment £	Pension Contributions £	
	Chief Executive - Jo Walker	162,757	0	0	
Director of Childrens' Services	135,515	0	0	33,743	169,258
Director of Adult Social Services	122,831	0	0	30,575	153,406
Director of Place	135,515	0	0	33,743	169,258
Director of Public Health and Regulatory Services	113,048	0	0	28,149	141,197
Director of Corporate Services (from 10/5/21)	105,826	0	0	26,344	132,170
Assistant Director & Monitoring Officer	92,710	467	0	23,085	116,262
	868,202	467	0	216,166	1,084,835

Post	2020/2021				Total Remuneration incl. pension contributions £
	Salary (incl. fees and allowances) £	Payments made for NSC elections £	Compensation for Loss of Employment £	Pension Contributions £	
	Chief Executive - Jo Walker	160,352	0	0	
Director of Childrens' Services (from 1/11/2020 - Director of People and Communities to 31/10/2020)	133,512	0	0	32,977	166,489
Director of Adult Social Services (from 1/11/2020)	48,665	0	0	12,020	60,685
Director of Place (from 1/11/2020) (Director of Development and Environment to 31/10/2020)	130,161	0	0	31,946	162,107
Director of Public Health and Regulatory Services	107,520	0	0	26,605	134,125
Interim Director of Finance and Resources (to 31/3/21)	106,078	0	0	26,201	132,279
Asst Director & Monitoring Officer (from 1/2/2021) (Head of Legal & Democratic Services to 31/1/2021)	91,340	0	0	22,561	113,901
Head of Performance Improvement and HR (to 3/11/2020)	54,043	0	89,097	13,349	156,489
	831,671	0	89,097	205,266	1,126,034

Notes to the Comprehensive Income and Expenditure Statement

In some years the Chief and Deputy Returning Officers and other senior officers receive payments for election duties. Payments in respect of Parliamentary, Parish, Police and Crime Commissioner and European election expenses are not considered as remuneration for employment by North Somerset Council and are funded by other sources. Payments made in respect of District elections are considered to be remuneration for employment by the Council.

18.2. Officers' Remuneration

Council employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) are shown in the table below. The numbers below cover all Council activities, including teachers, and include those senior officers detailed in Note 18.1 above.

Remuneration Band	No. of Employees		Remuneration Band	No of Employees	
	2020/21	2021/22		2020/21	2021/22
£50,000 - £54,999	34	39	£100,000 - £104,999	1	0
£55,000 - £59,999	22	21	£105,000 - £109,999	2	1
£60,000 - £64,999	19	21	£110,000 - £114,999	0	1
£65,000 - £69,999	8	9	£115,000 - £119,999	1	0
£70,000 - £74,999	4	4	£120,000 - £124,999	0	2
£75,000 - £79,999	1	3	£130,000 - £134,999	2	0
£80,000 - £84,999	2	2	£135,000 - £139,999	0	2
£85,000 - £89,999	1	1	£140,000 - £144,999	2	0
£90,000 - £94,999	5	4	£160,000 - £164,999	1	1

19. Termination Benefits

The total exit packages agreed in the year, and charged to the Comprehensive Income and Expenditure Statement, were:

	2020/2021		2021/2022	
	No. of Packages	£000	No. of Packages	£000
Charged and Accrued for within the Comprehensive Income & Expenditure Statement				
- Severance Payments		198		127
- Pension Strain Costs		259		145
	9	<u>457</u>	5	<u>272</u>

The value of agreed exit packages, all of which were compulsory, are as follows:

	2020/2021		2021/2022	
	No of compulsory	£000	No of compulsory	£000
Up to £20,000	5	11	1	1
£20,001 to £40,000	0	0	1	28
£40,001 to £60,000	2	115	2	100
£100,001 to £150,000	2	331	1	143
	9	<u>457</u>	5	<u>272</u>

Notes to the Comprehensive Income and Expenditure Statement

20. External Audit Costs

The Council has incurred the following costs in relation to external audit.

	2020/21 £000	2021/22 £000
Fees payable to Grant Thornton UK LLP with regard to the external audit and services carried out as the appointed auditor* **	156	214
Fees payable in respect of any other services provided by the appointed auditor - certification of other grant claims and returns:		
- Housing Benefit subsidy claim	16	26
- Teachers Pension claim	5	8
Total external audit costs	177	248

* The fees recorded in 2020/21 include £4,000 in respect of additional fees that relate to 2019/20.

** The fees recorded in 2021/22 include £12,000 in respect of additional fees that relate to 2019/20, £26,000 in respect of Value for Money work and £39,850 re fee variations, that relate to 2020/21.

The 2021/22 fees are estimates, as the 2021/22 Grant Thornton Audit Plan and PSAA agreement of additional fees were not finalised at the time that the accounts were closed.

21. Joint Funding Arrangements

The Better Care Fund is a high-profile policy initiative aimed at enabling health bodies and local authorities to work collaboratively together to address specific health and social care issues by joining resources and government funding allocations.

The Council has signed a Section 75 agreement with the Bristol, North Somerset and South Gloucestershire Clinical Commissioning Group (BNSSG CCG) in respect of Better Care Funding. Officers considered in detail both the nature of the contractual terms and the underlying substance and form of the commissioning practices when deciding upon the appropriate accounting treatment for the arrangement. This review concluded that a pooled budget was not in place, and that, as neither party had overall control of the pooled funds, the arrangement should be accounted for as a 'joint operation'. This means that each member will recognise their own assets, liabilities, income and expenditure within their accounts.

The following table summarises the following local authority and health agreements in respect of local authority and health functions:

Notes to the Comprehensive Income and Expenditure Statement

	2020/21 £000	2021/22 £000
Section 75 Agreement - Funding for services commissioned by the Council and included within the Council's Comprehensive Income and Expenditure Statement:		
- Assistive Technologies and Equipment	443	476
- Care Act Related Duties	820	881
- Carers Services	663	712
- Community Based Schemes	311	334
- DFG Related Schemes	2,361	2,361
- Domiciliary Care	209	224
- Enablers for Integration	636	683
- HICM for Managing Transfer of Care	411	413
- Integrated Care Planning & Navigation	5,745	6,451
- Intermediate Care Services	453	487
- Personalised Care at Home	26	28
- Prevention/Early Intervention	854	904
- Residential Placements	275	295
- Improved Better Care Fund	4,554	6,780
- Additional Improved Better Care Fund	1,303	0
- Winter Pressure Grant	924	0
	19,986	21,030
Section 75 Agreement - Funding for services commissioned by the BNSSG CCG - not included within the Council's Comprehensive Income and Expenditure Statement:		
- Carers Services	131	0
- Community Based Schemes	4,794	5,894
- Enablers for Integration	247	126
- HICM for Managing Transfer of Care	29	0
- Integrated Care Planning & Navigation	430	0
- Personalised Budgeting & Commissioning	2,527	2,575
- Prevention/Early Intervention	1,453	1,455
	9,611	10,051
Total funding identified within Section 75 Agreement	29,597	31,082

The Section 75 agreement identifies the nominated lead commissioners in respect of the local authority and health functions, although the disclosure above has been adjusted to reflect the underlying substance of the commissioning transactions in accordance with proper accounting practice.

Section 256 agreements were in place during the 2021/22 financial year to enable the joint commissioning of services in respect of Funded Nursing and Continuing Health Care on behalf of the BNSSG CCG. Further integration care work will be enabled through two additional Section 256 agreements for Healthier Together Match Funding and Integrated Care Funding.

Notes to the Comprehensive Income and Expenditure Statement

	2020/21 £000	2021/22 £000
Section 256 Agreements - included within the Council's Comprehensive Income and Expenditure Statement:		
- Integrated Care Funding allocation	0	6,423
- Healthier Together Match Funding allocation	0	2,472
	0	8,895
Section 256 Agreement - Funding for services commissioned on behalf of BNSSG CCG - not included within the Council's Comprehensive Income and Expenditure Statement:		
- Continuing Health Care (CHC) Commissioning	9,600	11,900
- Funded Nursing Care (FNC) Funding	5,500	5,500
	15,100	17,400
Total funding identified within Section 256 Agreements	15,100	26,295

Sources of funding in the agreements are as follows:

	2020/21 £000	2021/22 £000
Section 75 Agreement:		
- Funding from North Somerset Council	4,771	5,391
- Funding from Department for Levelling Up, Housing and Communities	9,142	9,142
- Funding from Department of Health	8,159	8,596
- Funding from Bristol, North Somerset and South Gloucestershire Clinical Commissioning Group	7,525	7,953
	29,597	31,082
Section 256 Agreements:		
- Funding from Bristol, North Somerset and South Gloucestershire Clinical Commissioning Group	15,100	26,295
Total	44,697	57,377

Expenditure included within the Council's Comprehensive Income and Expenditure Account includes £21.030m (2020/21 £19.986m) in respect of the direct costs incurred for social care activities, in areas such as staffing and contracted services, as well the indirect expenditure incurred on the provision of Disabled Facilities Grants initially charged through the capital programme.

Any additional costs incurred for health-related functions in excess of the £26.295m (2020/21 £15.100m) identified within the Section 256 agreements remain the liability of the North Somerset Clinical Commissioning Group, with any such balances being reflected within the Council's balance sheet. Similarly, any surplus balances remaining where expenditure has been lower than the estimated funding provision given, will be returned after the year-end.

22. Business Rate Arrangements – City Region Deal

Under the City Region Deal, Bristol City, Bath & North East Somerset, North Somerset and South Gloucestershire councils ("the Authorities") are part of a Business Rates Retention Scheme, introduced by the government in April 2013 which allowed authorities to retain a proportion of the business rates collected locally.

The Authorities are allowed to retain 100% of the growth in business rates raised in the City Region's network of Enterprise Areas over a 25 year period ending on 31/3/2039, to create an Economic

Notes to the Comprehensive Income and Expenditure Statement

Development Fund for the West of England and to manage local demographic and service pressures arising from economic growth.

A 'baseline' level of rates for each Authority has been agreed with the government for the areas designated within the Non-Domestic Rating (Designated Areas) Regulations 2014. Rates collected up to this figure (the baseline) are subject to the national rates retention system. Rates collected in excess of this figure (the 'growth figure') are retained by the Authorities under the Non-Domestic Rates Designated Area Regulations 2013 and 2014 in a pooling arrangement. The governance of the distribution of retained pooled funds occurs through a City Deal Business Rates Pooling Board, constituted under the Business Rates Pooling Principles Agreement (BRPPA) signed by the four Authorities.

Transactions

Each participating council pays an annual growth figure to South Gloucestershire Council, as the Accountable Body for the Business Rates Pool (BRP), representing business rates collected in the Enterprise Areas in excess of an agreed baseline figure. Retained funds will be distributed or invested annually in accordance with the 2014 Regulations and the BRPPA as:

- Tier 1: to ensure that no individual council is any worse off than it would have been under the national local government finance system,
- Tier 2: to an Economic Development Fund (EDF) for reinvestment within the designated areas through approved programmes,
- Tier 3: for the relief of demographic and service pressures associated with growth.

Cash receivable and disbursements payable by the BRP and the Council's share of these are reflected under "Cash Transactions" in the table below. The Expenditure and Revenue recognised in the Council's CIES is disclosed under "Expenditure & Revenue" in the table below:

	CASH TRANSACTIONS		REVENUE	
	Business Rates Pool Total £000	of which the Council's Share £000	Council Expenditure £000	Council Revenue £000
Funds held by BRP at 1 April	(54,353)	(5,326)	0	0
Adjustment to opening balance	(235)	(8)		
Analysed between:				
- Uncommitted cash (Tier 2 including contingency)	(14,009)	(1,295)		
- Committed cash not yet allocated	(40,579)	(4,039)		
Receipts into the Pool in-year:				
- Growth sums payable by councils to BRP in-year	(25,196)	(1,935)	1,377	0
Distributions out of the Pool in-year:				
- Tier 1 no worse off	8,767	954	0	(954)
- BRP management fee	35	9	0	0
- EDF management fee	65	16	0	0
- Tier 2 EDF funding	3,397	241	0	(138)
- Tier 3 demographic and service pressures	2,687	157	0	(274)
Total Distributions out of the Pool in-year	14,951	1,377		
Funds held by BRP at 31 March	(64,833)	(5,892)		
Analysed between:				
- Uncommitted cash (Tier 2 including contingency)	(2,535)	(149)	(1,146)	n/a
- Committed cash not yet allocated	(62,298)	(5,743)	1,704	n/a
	(64,833)	(5,892)		
Expenditure / (Revenue) recognised			1,935	(1,366)

Notes to the Comprehensive Income and Expenditure Statement

Growth paid over to the BRP is recognised as expenditure by each council to the extent that the use of the funds by the BRP has been incurred. Any remaining cash is recognised by each council as a debtor.

The 2020/21 disclosure was based on an estimated outturn for one of the partner authorities. An adjustment to the opening balance is shown above, to bring North Somerset Council's 2020/21 closing balances into line with the final outturn position for all four authorities.

The BRP has made several payments totalling £3.397m on behalf of the EDF in 2021/22 (2020/21 £1.164m), of which the Council received £0.138m (2020/21 £0.142m).

The uncommitted and unallocated cash of £5.892m (2020/21 £5.327m) contributed by the Council and held by the BRP is recognised by the Council as a debtor and is held in an earmarked reserve to smooth the impact of City Region Deal transactions, and match the release of revenue support and charges for projects. The differences between the cash sums paid by the Council of £1.935m (2020/21 £2.230m) and the expenditure recognised of £1.377m (2020/21 £1.235m) is equivalent to the £0.558m (2020/21 £0.995m) increase in uncommitted and unallocated funds included in reserves

Under the terms of the EDF agreement, annual EDF payments from the business rates pool will only be made subject to there being sufficient cash held in the Fund in the relevant year, and will be pro-rated in the event of a shortfall. Until the EDF payments become physically due each year, the cash is retained in the business rates pool and held as "Committed Cash not yet allocated". These allocations will fluctuate significantly as overall levels of cash in the Fund change and as additional EDF-funded projects are approved. EDF income to the Council in respect of future year payments from the EDF is not considered sufficiently certain in terms of timing or amount to recognise a debtor at year end, and therefore is contingent. Based on the current cash held and status of approved schemes, the contingent future allocation of the committed cash to the Council is £5.743m (2020/21 £4.051m), of the total £62.298m (2020/21 £40.579m) committed pool balance.

The Council itself has recognised revenue income of £1.366m (2020/21: £1.418m) from the BRP and expenditure of £1.377m (2020/21 £1.235m) to the BRP for the year.

23. Related party transactions

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

Central Government

Central Government has effective control over the general operations of North Somerset Council – it is responsible for providing the statutory framework within which the Council operates. It provides significant proportions of funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. Council tax bills and award of housing benefit).

Details of grants received from Government departments and carried in the Balance Sheet at 31 March 2021 are shown in Note 14. Short term debtor and creditor balances with Government bodies are shown in Notes 27 and 28.

Notes to the Comprehensive Income and Expenditure Statement

Members and senior officers

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2021/22 is shown in Note 17.

All Members, together with the Council's Corporate Management Team, are required to sign a declaration detailing any relevant transactions entered into by them or close members of their family during the financial year.

Two declarations had not been completed by members at the time that these accounts were approved. Of these, one member was too seriously ill to respond.

The Head of Finance, in conjunction with the Monitoring Officer, has reviewed the returned declarations to identify relationships where bodies or individuals might have the potential to control or influence the Council.

A North Somerset Council member was a member of the Board of Trustees of the Brandon Trust for part of 2021/22. During this period in 2021/22, £6,241,591 of payments were made to the Brandon Trust for social care. At the year end, creditor invoices totalling £25,702 were payable to the Brandon Trust, and debtor invoices totalling £50 were outstanding.

A further £108,017 of payments were made for services commissioned from three other companies in which a member, or a close member of their family, had an interest. No creditors or debtor balances were due from these companies at the year end.

No payments to companies in which a member, or a close member of their family, had an interest were made in 2020/21.

Contracts were entered into in full compliance with the Council's standing orders.

Details of Members interests are recorded in the Register of Members' Interest, open to public inspection by appointment at the Town Hall, and on the Council's website:

<https://www.n-somerset.gov.uk/council-democracy/councillors-committees/councillors/declarations-interest>

Pension Funds

The details of the contributions made by the Council to the Avon Pension Fund are provided in Note 35, and Teachers' Pensions in Note 34.

West of England Local Enterprise Partnership (LEP) and West of England Combined Authority

The West of England Local Enterprise Partnership (LEP) is a public private partnership that covers the four unitary authorities of Bath and North East Somerset, Bristol City Council, North Somerset, and South Gloucestershire. Its purpose is to influence, advise and support strategic activities which deliver or have a beneficial impact on inclusion economic growth, job creation and quality of life in the West of England region.

The membership of the LEP Board consists of up to fourteen business members, one of whom shall be the LEP Board Chair. Other members include a representative from Higher Education, as well as the Mayor of the West of England Combined Authority, the Mayor of Bristol City Council and the Leaders of Bath and North East Somerset Council, South Gloucestershire Council and North Somerset Council. ("Local Authority Members"). The LEP Board meet up to 6 times a year and consider, debate and shape key decisions and papers for the West of England Combined Authority and the West of England Joint Committee.

Notes to the Comprehensive Income and Expenditure Statement

Grants received by the Council from the LEP include Economic Development Fund, Local Growth Fund, and Revolving Infrastructure Fund, the majority of which relate to capital projects. These are administered by the West of England Combined Authority (WECA).

The West of England Combined Authority (WECA) is made up of three of the local authorities in the region – Bath & North East Somerset, Bristol and South Gloucestershire. Its aim is to deliver economic growth for the region and address challenges, such as productivity and skills, housing and transport. WECA is chaired by the West of England Mayor. The Mayor and the Combined Authority have been given powers over spending, previously held by central government, on the region's transport, housing, adult education and skills.

The Council is not a member authority of WECA, and hence does not have control or significant influence over its decisions.

Other Partnerships

The Council is a major partner in the West of England City Region Deal, details of which are disclosed in Note 22.

The authority has a Section 75 agreement in respect of Better Care Funding, and Section 256 agreements in respect of Free Nursing and Continuing Health Care, Healthier Together Match Funding and Integrated Care Funding, with the Bristol, North Somerset and South Gloucestershire Clinical Commissioning Group. Income and expenditure are detailed in Note 21.

Other Public Bodies

Any significant transactions with other public bodies (e.g. parish precepts) are disclosed elsewhere within this Statement of Accounts.

Entities controlled or significantly influenced by the Council

North Somerset Inspire Limited

The Council is the owner of a private limited company which was incorporated on 1 March 2019, with a share capital of 100 ordinary shares of £1 each. The primary aim of North Somerset Inspire Ltd is to deliver transformational projects and support services to other public sector bodies.

During the financial year the following Council officers held the following positions: Director – Stuart Anstead (Head of Support Services); Company Secretary – Mike Riggall (Information and ICT Security Manager). The company has not yet established a business plan, implemented the required operational arrangements or gained approval from full Council meaning that it has yet to commence trading. Therefore the Council had no transactions or balances outstanding with this company during the year.

Adoption West

Adoption West is a private company limited by guarantee, incorporated on 9 January 2018. It was set up by 6 local authorities (South Gloucestershire, Bath & North East Somerset, North Somerset, Bristol, Wiltshire and Gloucestershire Councils) to co-ordinate and facilitate adoptions across the region.

Each council has a 1/6th shareholding in the company and is required to fund costs in accordance with membership proportions agreed in the "Commissioning Agreement" between the parties. North Somerset Council's membership proportion is 12.41%. Decisions require the unanimous consent of the parties sharing control. The Council had no transactions or balances outstanding with

Notes to the Comprehensive Income and Expenditure Statement

this company during the year. The Council's share of the company's net assets were not judged sufficiently material to warrant inclusion in the group accounts.

North Somerset Environment Company Ltd

The Council is the 100% owner of a private limited company which was incorporated on 26 October 2020, with a share capital of 1 ordinary share of £1 each. The primary aim of North Somerset Environment Company Ltd (NSEC) is to deliver waste collection and recycling services to North Somerset Council. The company began delivering these services to the Council in March 2021.

During the year Council officers held the following positions with NSEC: Director – Sheila Smith (Director of Childrens' Services), Director – Gemma Dando (Assistant Director – Neighbourhoods and Transport).

The Council's transactions with this company during the year were material, as follows:

- Accounts payable invoices received and paid on the accounts payable system in 2021/22 totalled £11,412,939.
- The creditor balance outstanding on Accounts Payable system at 31 March 2022 was nil.
- Accounts receivable invoices raised in 2021-22 totalled £8,095,767.
- Receipts relating to debtor invoices in 2021-22 totalled £6,587,021.
- The debtor balance outstanding on the Accounts Receivable system at 31 March 2022 was £1,529,287.

As noted in Note 1, Critical judgements in applying accounting policies, the transactions of NSEC are now judged to be sufficiently material to require the preparation of group accounts.

Notes to the Balance Sheet

24. Property, Plant and Equipment and Intangibles

24.1. Movements on Balances

Movements in 2021/2022	Land & Buildings £000	Community Assets £000	Vehicles, Plant & Equipment £000	Assets Under Construction £000	Surplus £000	Total Property, Plant & Equipment, excl Infrastructure £000	Intangible Assets £000	TOTAL £000
Cost or Valuation								
At 1 April 2021	187,957	6,746	39,980	54,703	629	290,015	500	290,515
Additions	3,464	159	1,294	19,062	0	23,979	0	23,979
Revaluations - Revaluation Reserve	4,374	1	0	0	0	4,375	0	4,375
Revaluations - CI&ES	(1,122)	0	0	0	0	(1,122)	0	(1,122)
Derecognition - Disposals	(19,854)	0	(272)	0	0	(20,126)	0	(20,126)
Assets reclassified	5,822	0	0	(24,003)	0	(18,181)	0	(18,181)
At 31 March 2022	180,641	6,906	41,002	49,762	629	278,940	500	279,440
Accumulated Depreciation & Impairment								
At 1 April 2021	(4,172)	(1,710)	(28,974)	0	0	(34,856)	(300)	(35,156)
Depreciation for the year	(5,601)	(59)	(1,815)	0	0	(7,475)	(50)	(7,525)
Depreciation written out - Revaluation Reserve	5,843	0	0	0	0	5,843	0	5,843
Impairment (Losses) / Reversals - Revaluation Reserve	(1,036)	(16)	0	0	0	(1,052)	0	(1,052)
Impairment (Losses) / Reversals - CI&ES	(93)	(85)	(20)	0	0	(198)	0	(198)
Derecognition - Disposals	313	0	229	0	0	542	0	542
At 31 March 2022	(4,746)	(1,870)	(30,580)	0	0	(37,196)	(350)	(37,546)
Net Book Value at 1 April 2021	183,785	5,036	11,006	54,703	629	255,159	200	255,359
Net Book Value at 31 March 2022 - Current Value	175,895	5,036	10,422	49,762	629	241,744	150	241,894

Notes to the Balance Sheet

Movements in 2020/2021	Land & Buildings £000	Community Assets £000	Vehicles, Plant & Equipment £000	Assets Under Construction £000	Surplus £000	Total Property, Plant & Equipment, excl Infrastructure £000	Intangible Assets £000	TOTAL £000
Cost or Valuation								
At 1 April 2020	167,582	6,582	37,171	49,327	629	261,291	500	261,791
Additions	4,306	164	2,859	16,651	0	23,980	0	23,980
Revaluations - Revaluation Reserve	15,757	0	0	0	0	15,757	0	15,757
Revaluations - CI&ES	(2,762)	0	0	0	0	(2,762)	0	(2,762)
Derecognition - Disposals	(8,201)	0	(50)	0	0	(8,251)	0	(8,251)
Assets reclassified	11,275	0	0	(11,275)	0	0	0	0
At 31 March 2021	187,957	6,746	39,980	54,703	629	290,015	500	290,515
Accumulated Depreciation & Impairment								
At 1 April 2020	(7,599)	(1,652)	(27,004)	0	0	(36,255)	(250)	(36,505)
Depreciation for the year	(4,868)	(58)	(1,637)	0	0	(6,563)	(50)	(6,613)
Depreciation written out - Revaluation Reserve	8,225	0	0	0	0	8,225	0	8,225
Impairment (Losses) / Reversals - Revaluation Reserve	(632)	0	0	0	0	(632)	0	(632)
Impairment (Losses) / Reversals - CI&ES	(152)	0	(377)	0	0	(529)	0	(529)
Derecognition - Disposals	854	0	44	0	0	898	0	898
At 31 March 2021	(4,172)	(1,710)	(28,974)	0	0	(34,856)	(300)	(35,156)
Net Book Value at 1 April 2020	159,983	4,930	10,167	49,327	629	225,036	250	225,286
Net Book Value at 31 March 2021 - Current Value	183,785	5,036	11,006	54,703	629	255,159	200	255,359

Notes to the Balance Sheet

24.2. Infrastructure assets

As noted in Note 6, Infrastructure assets have been excluded from the Property, Plant and Equipment disclosure in Note 24.1 above, which includes accumulated cost and depreciation, and included in a separate table below, which details movements in Net Book Value only.

Movements on Balances	2020/21 £000	2021/22 £000
Net Book Value (Modified Historical Cost):		
At 1 April	128,467	128,037
Additions	13,225	14,547
Transfers from other categories of PPE	0	18,181
Depreciation	(5,048)	(5,075)
Impairment / Reversals - CIES	(8,607)	(6,133)
At 31 March	128,037	149,557

24.3. Revaluations

The Council carries out a rolling programme of valuations, with revaluations undertaken at least every 5 years, ensuring that all Property, Plant and Equipment required to be measured at current value is revalued sufficiently regularly to ensure that their carrying amount is not materially different from their carrying value at the year-end. This process also allows for any significant operational or accounting changes to be reflected in current valuations.

Similarly, Investment Property assets and any Assets Held for Sale are subject to a revaluation review on an annual basis to ensure that their carrying values are reflective of the latest market value conditions. The basis of the Council's valuations are set out in the Accounting Policies.

All valuations are carried out in accordance with the Royal Institution of Chartered Surveyors Red Book, and are arranged by the Council's Property Estates and Regeneration Manager, who is A.R.I.C.S. qualified. The revaluations undertaken in 2021/22 have been carried out by professionally qualified staff from within the Council's in-house team, except for two of our investment properties which, due to their specialist nature, were valued by an independent valuer. The PPE valuations were applied with a revaluation date of 1 January 2022, and 31 March 2022 for Investment Property. Valuations are accounting estimates, which include review of impairments and estimated remaining useful lives of the assets.

These valuation specialists continue to review the asset portfolio where revaluations have not been undertaken at the year end, considering the impact of valuation indices and cost factors relevant to the local area, and comparing these to the carrying values of assets held in the Asset Register. The table below reflects the current value of the assets valued in each of the five years, together with those assets carried at historic cost.

Notes to the Balance Sheet

	Land & Buildings £000	Infra - structure Assets £000	Community Assets £000	Vehicles, Plant & Equipment £000	Assets Under Construction £000	Surplus Assets £000	Total Property, Plant & Equipment £000	Intangible Assets £000	Heritage Assets £000	Investment Properties £000
Valued at										
Historical Cost	0	149,557	3,071	10,421	49,762	0	212,811	150	0	0
Year of valuation										
2021/22	144,270	0	11	0	0	0	144,281	0	0	45,707
2019/20	15,781	0	1,325	0	0	0	17,105	0	0	0
2018/19	15,268	0	0	0	0	629	15,897	0	0	0
2017/18	406	0	0	0	0	0	406	0	0	0
2015/16	0	0	539	0	0	0	539	0	0	0
2014/15 or prior	170	0	90	0	0	0	260	0	288	0
Total	175,895	149,557	5,036	10,421	49,762	629	391,300	150	288	45,707

24.4. Disposal of Non-Current Assets

Academy Schools

During the year five primary schools transferred from the Council's control to Academy status.

These school assets are written out of the accounts and reflected as a disposal at nil consideration, resulting in a loss being charged to the Council's Comprehensive Income and Expenditure Statement.

	Date of Conversion	Net Book Value 1 April 2021 £000
Chestnut Park, Yatton	01 September 2021	5,822
Winscombe Primary School	01 December 2021	3,322
Sandford Primary School	01 December 2021	1,801
St Francis	01 March 2022	2,146
Corpus Christi	01 March 2022	2,268
		15,360

Other assets disposed of during the year were not material.

24.5. Capital Commitments

At 31 March 2022, the authority has entered into contracts for the construction or enhancement of property, plant and equipment in 2022/23 and future years. The major commitments were:

	2020/21 £000	2021/22 £000
North South Link	331	46
Locking Parklands - Utilities	343	29
Winterstoke Academy Expansion	423	205
Banwell Bypass	2,057	380
Winterstoke Road Bridge	906	60
Baytree Special School - new site	0	12,558
Locking Parklands - Health Centre	0	2,438
Tutshill	0	1,036
Other	1,647	2,648
Total Commitments	5,707	19,400

Notes to the Balance Sheet

25. Investment Properties

The following items of income and expense have been accounted for in the Corporate Services line in the Comprehensive Income and Expenditure Statement:

	2020/21 £000	2021/22 £000
Rental income from investment property	(3,980)	(4,878)
Direct operating expenses arising from investment property	3,579	4,516
Net (gain) / loss	(401)	(362)

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

	Note	2020/21 £000	2021/22 £000
Balance at 1 April		45,517	44,770
Additions:			
- Subsequent expenditure	26	115	1,347
Net gains / (losses) from fair value adjustments	12	(862)	(410)
Balance at 31 March		44,770	45,707

Fair value hierarchy

Details of the fair value of the Council's investment properties, and information about their fair value hierarchy, are as follows.

	Fair Value 31 March 2021			Fair Value 31 March 2022		
	Other significant observable inputs	Significant unobservable inputs	Total	Other significant observable inputs	Significant unobservable inputs	Total
	Level 2 £000	Level 3 £000	£000	Level 2 £000	Level 3 £000	£000
Smallholdings	7,682	0	7,682	7,972	0	7,972
Commercial Units	33,354	3,734	37,088	33,674	4,061	37,735
Total	41,036	3,734	44,770	41,646	4,061	45,707

Shown below is a reconciliation of the fair value measurements in respect of Level 3 valuations.

	2020/21 £000	2021/22 £000
Balance at 1 April	7,686	3,734
Net gains / losses from fair value adjustments (recognised in the Surplus or Deficit on the Provision of Services - Note 12)	(142)	327
Reclassification: Smallholdings previously Level 3 are now Level 2	(3,827)	0
Additions: Subsequent expenditure	17	0
Balance at 31 March	3,734	4,061

Notes to the Balance Sheet

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

Significant Observable Inputs - Level 2 Fair Value Investment Property Assets

Six commercial properties and six smallholdings have been categorised as Level 2 in the fair value hierarchy, with their fair value being measured using a combination of the market approach and the income approach. The market approach uses comparable market evidence in arriving at values, whilst the income approach uses an all risk yield to capitalise the income, to arrive at the value. This yield is based on comparable market yields. These investment properties are categorised as Level 2 in the fair value hierarchy as the measurement technique uses inputs that are observable for the asset, either directly or indirectly, and there is no reasonably available information that indicates the market participants would use different assumptions.

Significant Unobservable Inputs - Level 3 Fair Value Investment Property Assets

Three commercial properties have been categorised as Level 3 in the fair value hierarchy as the measurement technique uses significant unobservable inputs to determine the fair value measurements (and there is no reasonably available information that indicates that market participants would use different assumptions).

Level 3 assets are measured using a combination of either the market approach or the income approach. The market approach uses comparable market evidence in arriving at values, whilst the income approach uses an all-risk yield to capitalise the income to arrive at the value. The yield is based on comparable market yields.

	Fair Value 31 March 2022 £000	Valuation Technique Used to Measure Fair Value	Unobservable Inputs	Range (weighted average)	Sensitivity
Commercial Units	4,061	Combination of income and market approach	Yield Rate % of MV attributable to Land Discount Rate	4.5% - 6.5% 85% - 100% 7% - 8%	Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for these assets
Total	4,061				

Highest and Best Use of Investment Property Assets

In estimating the fair value of the Council's investment properties, the 'highest and best use' of the properties is not the current value in use for two of the smallholdings; Locking Head Cottage Farm and Locking Head Farm. Parts of both farms have been allocated for development as part of the Parklands Village development area. The highest and best value for these properties reflects this future development potential. However, these properties are not currently held at their highest and best use values, as they are subject to protected tenancies.

Valuation Techniques

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

Valuation Process

The fair value of the authority's investment properties is measured annually at each reporting date. All of the investment property valuations were carried out internally in accordance with the Royal Institution of Chartered Surveyors Red Book. The authority's valuation experts work closely with

Notes to the Balance Sheet

finance officers reporting directly to the Chief Financial Officer on a regular basis regarding all valuation matters.

26. Capital Expenditure and Financing

The total amount of capital expenditure incurred in the year is shown in the table below, together with the resources that have been used to finance it. The net movement in the Capital Financing Requirement illustrates the change in the underlying need for the Council to borrow during the year to fund capital investment which has not been funded immediately from resources such as grants, capital receipts and direct funding from revenue.

	2020/21 £000	2021/22 £000
Opening Capital Financing Requirement	187,356	184,883
Capital Investment in Year		
Property, Plant and Equipment	37,205	38,526
Investment Properties	115	1,347
Revenue Expenditure Funded from Capital Under Statute	4,575	5,517
	<u>41,895</u>	<u>45,390</u>
Source of Finance		
Capital Receipts and Reserves	(2,433)	(2,109)
Government Grants and Contributions	(32,458)	(36,883)
Revenue Provisions and Reserves	(3,714)	(1,576)
Minimum Revenue Provision	(5,763)	(5,968)
	<u>(44,368)</u>	<u>(46,536)</u>
Net Increase / (Decrease) in Capital Financing Requirement	(2,473)	(1,146)
Closing Capital Financing Requirement	<u>184,883</u>	<u>183,737</u>
Explanation of movement in year:		
Increase in underlying need to borrow unsupported by Government assistance	3,290	4,822
Minimum Revenue Provision	(5,763)	(5,968)
	<u>(2,473)</u>	<u>(1,146)</u>

The Minimum Revenue Provision shown above comprises:

	2020/21 £000	2021/22 £000
Supported Borrowing Minimum Revenue Provision	(900)	(900)
Prudential Borrowing Minimum Revenue Provision	(4,031)	(4,241)
Ex-Avon Loan Debt Minimum Revenue Provision	(510)	(490)
Finance Leases Minimum Revenue Provision	(322)	(337)
	<u>(5,763)</u>	<u>(5,968)</u>

Notes to the Balance Sheet

27. Debtors

	2020/21 £000	2021/22 £000
Central Government Bodies	15,524	6,331
Other Local Authorities	5,064	7,832
NHS Bodies	4,975	5,219
Other Entities and Individuals	17,221	19,212
Total Short Term Debtors	42,784	38,594
Prepayments	13,248	16,406
Total Short Term Debtors and Prepayments	56,032	55,000

28. Creditors

	2020/21 £000	2021/22 £000
Central Government Bodies	(23,332)	(31,101)
Other Local Authorities	(1,678)	(2,728)
NHS Bodies	(936)	(163)
Public Corporations and Trading Funds	(36)	(165)
Other Entities and Individuals	(40,841)	(39,605)
Total Short Term Creditors	(66,823)	(73,762)
Finance lease obligations due within 12 months	(336)	(351)
Total Short Term Creditors including finance lease obligations	(67,159)	(74,113)

29. Provisions

Provisions are amounts set aside by the Council for an obligation which are likely to lead to a payment, but where the exact amount and timing of the payment is uncertain.

	Balance 31 March 2021 £000	Additional Provisions Made £000	Amounts reversed £000	Amounts Used £000	Balance 31 March 2022 £000
Insurance Provisions	(1,633)	(1,183)	165	431	(2,220)
NNDR Appeals Provision	(5,165)	(4,804)	5,165	0	(4,804)
Other	(930)	(720)	0	137	(1,513)
Total Provisions	(7,728)	(6,707)	5,330	568	(8,537)
Expected future timing of associated outflows of economic benefit:					
Less than 1 year	(6,178)				(6,626)
Over 1 year, less than 5 years	(1,285)				(1,520)
Over 5 years	(265)				(391)
	<u>(7,728)</u>				<u>(8,537)</u>

Significant provisions	Description
Insurance Provisions	To finance the estimated costs of known insurance claims, where uncertainties remain over the timing, outcomes or amounts of likely claim settlements.

Notes to the Balance Sheet

NNDR Appeals

To finance the estimated costs of known NNDR business rate appeals which have been lodged with the Valuation Office and the estimated costs of NNDR appeals which are not yet lodged, but are expected to be based on past experience. There is uncertainty over the timing or amounts of likely settlements, therefore the provision is based on the number of appeals received, plus an estimate of future appeals and an estimate of the likelihood of success of these appeals.

30. Contingent Liabilities

National Non-Domestic Rating – Unlodged Appeals

The Council has made a provision for its best estimate of the cost of unlodged NNDR appeals made to the Valuation Office – see Provisions Note 29. However, there remains uncertainty over any obligation arising from future appeals not yet received, including the level of such appeals that may be made, how many appeals would be successful, the rateable value of the appealed property or the value of payments that would be made to successful appellants. The value of any such appeals not provided for is not considered likely to be material.

31. Financial Instruments

31.1. Categories of Financial Instruments

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

2021/22	Non-Current		Current			Total £000
	Investments £000	Debtors £000	Investments £000	Debtors £000	Cash £000	
Financial Assets						
Fair value through profit or loss	10,082	0	0	0	0	10,082
Amortised cost	0	1,002	167,064	12,460	0	180,526
Total financial assets	10,082	1,002	167,064	12,460	0	190,608
Non-financial Assets						
Statutory & Government Debtors	0	3,610	0	26,135	0	29,745
Payments in advance	0	0	0	16,405	0	16,405
Total non-financial assets	0	3,610	0	42,540	0	46,150
Total on Balance Sheet	10,082	4,612	167,064	55,000	0	236,758
	Non-Current		Current			Total £000
	Borrowing £000	Creditors £000	Borrowing £000	Creditors £000	Overdraft £000	
Financial Liabilities						
Amortised cost	(136,697)	0	(7,364)	(17,928)	0	(161,989)
Cash and cash equivalents	0	0	0	0	(4,417)	(4,417)
Total Financial Liabilities	(136,697)	0	(7,364)	(17,928)	(4,417)	(166,406)
Non-financial Liabilities						
Statutory & Government Creditors	0	0	0	(24,019)	0	(24,019)
Receipts in Advance	0	(364)	0	(17,440)	0	(17,804)
Contributions and Deposits	0	0	0	(14,375)	0	(14,375)
Finance lease liabilities	0	(21,741)	0	(351)	0	(22,092)
Total non-financial liabilities	0	(22,105)	0	(56,185)	0	(78,290)
Total on Balance Sheet	(136,697)	(22,105)	(7,364)	(74,113)	(4,417)	(244,696)

Notes to the Balance Sheet

2020/21	Non-Current		Current			Total £000
	Investments	Debtors	Investments	Debtors	Cash	
	£000	£000	£000	£000	£000	
Financial Assets						
Fair value through profit or loss	9,493	0	0	0	0	9,493
Amortised cost	0	887	133,072	13,131	0	147,090
Cash and cash equivalents	0	0	0	0	10,327	10,327
Total financial assets	9,493	887	133,072	13,131	10,327	166,910
Non-financial Assets						
Statutory & Government Debtors	0	3,910	0	29,653	0	33,563
Payments in advance	0	0	0	13,247	0	13,247
Total non-financial assets	0	3,910	0	42,900	0	46,810
Total on Balance Sheet	9,493	4,797	133,072	56,031	10,327	213,720
	Non-Current		Current			Total £000
	Borrowing	Creditors	Borrowing	Creditors	Overdraft	
	£000	£000	£000	£000	£000	
Financial Liabilities						
Amortised cost	(143,215)	0	(7,804)	(18,474)	0	(169,493)
Total Financial Liabilities	(143,215)	0	(7,804)	(18,474)	0	(169,493)
Non-financial Liabilities						
Statutory & Government Creditors	0	0	0	(27,767)	0	(27,767)
Receipts in Advance	0	(387)	0	(8,839)	0	(9,226)
Contributions and Deposits	0	0	0	(11,743)	0	(11,743)
Finance lease liabilities	0	(22,092)	0	(336)	0	(22,428)
Total non-financial liabilities	0	(22,479)	0	(48,685)	0	(71,164)
Total on Balance Sheet	(143,215)	(22,479)	(7,804)	(67,159)	0	(240,657)

31.2. Income, Expense, Gains and Losses

	2020/21		2021/22	
	Surplus or Deficit on the Provision of Services	Other Comprehensive Income and Expenditure	Surplus or Deficit on the Provision of Services	Other Comprehensive Income and Expenditure
	£000	£000	£000	£000
Net (gains) / losses on:				
Financial assets measured at fair value through profit or loss	(405)	0	(589)	0
Financial assets measured at amortised cost	(11)	0	19	0
Total net (gains) / losses	(416)	0	(570)	0
Interest income				
Financial assets measured at amortised cost	(469)	0	(297)	0
Other investment income	(421)	0	(398)	0
Interest receivable and investment income	(890)	0	(695)	0
Interest expense re borrowing	5,827	0	5,729	0

Notes to the Balance Sheet

31.3. Fair Values of Financial Assets and Liabilities

Some of the Council's financial assets are measured at fair value on a recurring basis and are described in the following table, including the valuation techniques used to measure them.

	Input level in fair value hierarchy	Valuation technique used to measure fair value	31 March 2021 £000	31 March 2022 £000
Fair Value through Profit or Loss				
Property funds	1	Unadjusted quoted prices in active markets for identical units	4,687	5,510
Multi-Asset funds	1	Unadjusted quoted prices in active markets for identical units	4,806	4,572
Total			9,493	10,082

Financial instruments, except those classified at amortised cost, are carried in the Balance Sheet at fair value. The fair value of pooled funds is taken from their market price.

The authority has an equity shareholding in North Somerset Environment Company Ltd. As allowed by the Code, this investment is held at historic cost of £1. The fair value of the investment is judged not to be materially different from this carrying value. As the shares in this company are not traded on an active market, the fair value assessment uses valuation techniques that are not based on observable market transactions or available market data. The valuation has been made on the basis of an analysis of the assets and liabilities in the company's latest audited accounts. As the company has only been trading for one year, it is not yet considered possible to make a reliable assessment of future trading prospects, and the expected return on the company's net assets.

There has been no change in the valuation techniques used during the year for the financial instruments.

31.4. The Fair Values of Financial Assets and Financial Liabilities that are not measured at fair value, but for which Fair Value disclosures are required

Except for the financial assets carried at fair value (described in the table above), all other financial assets and financial liabilities held by the Council are carried in the Balance Sheet at amortised cost. The fair values calculated are as follows:

	Fair Value Level	31 March 2021		31 March 2022	
		Carrying value £000	Fair Value £000	Carrying value £000	Fair Value £000
Financial Assets					
<i>Financial assets held at Amortised cost</i>					
Short term investments	2	133,071	133,071	167,064	167,064
Current debtors	2	13,131	13,131	12,460	12,460
Non-current debtors	2	887	887	1,002	1,002
Cash and cash equivalents	1	10,327	10,327	0	0
Total Financial Assets		157,416	157,416	180,526	180,526

These assets relate largely to short term assets, long term bank deposits and long-term debtors. Their fair value is calculated at cost, amortised at their effective interest rate. This is not materially different from their carrying value.

Notes to the Balance Sheet

	Fair Value Level	31 March 2021		31 March 2022	
		Balance Sheet £000	Fair Value £000	Balance Sheet £000	Fair Value £000
Financial Liabilities					
<i>Financial Liabilities held at amortised cost:</i>					
Long term borrowing from PWLB	2	(140,467)	(173,557)	(134,384)	(150,055)
Long term borrowing from Salix	2	(2,748)	(2,748)	(2,313)	(2,313)
Short term borrowing	2	(7,804)	(8,050)	(7,364)	(7,420)
Short term creditors	2	(18,474)	(18,474)	(17,928)	(17,928)
Bank overdraft	1	0	0	(4,417)	(4,417)
Total Financial Liabilities		(169,493)	(202,829)	(166,406)	(182,133)

Short term creditors are carried at cost as this is a fair approximation to their value.

Financial liabilities classified as held at amortised cost are carried in the Balance sheet at their amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at the year end.

PWLB borrowing has been valued by discounting the contractual cash flows over the whole life of the instrument, at an appropriate market rate for replacement local authority borrowing. The fair value of other borrowing, including non-financial liabilities, has been assessed as being not materially different from their carrying value.

The fair value of the Council's long term PWLB borrowing uses observed rates of return for comparable replacement liabilities. The fair value of this borrowing is higher than its carrying value in the accounts as the Council's portfolio of loans comprises fixed rate loans where the interest rate payable is lower than the rates available for similar loans in the market at the Balance Sheet date. All movements in borrowing and lease liabilities relate to financing cash flows.

Non-financial liabilities, including Finance lease liabilities, are carried in the Balance Sheet at amounts approximating to their fair value.

32. Nature and Extent of Risks Arising from Financial Instruments

The Council'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 Council.
- liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments as they fall due
- market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates, and stock market movements.

The Council's Treasury Management Strategy are updated each year and approved by elected members. The Strategy mitigates credit risk by requiring that deposits are only made with financial institutions that meet minimum credit scores, and by setting limits to restrict the total amounts invested with individual counterparties at any one time. Both the in-house treasury team and the Council's external cash managers have a range of counter-party limits which are linked to both the length of the investment placed and the organisational credit limits. The only exception to this principle relates to deposits made with the Government's Debt Management Office. No limit is applied, as it is deemed an extremely secure investment.

Credit risk arises from deposits with banks and financial institutions, as well as credit exposure to the Council's customers.

Notes to the Balance Sheet

32.1. Amounts arising from expected credit losses (ECL)

The changes in the loss allowance for financial assets held at amortised cost during the year are as follows:

	Short term Investments (12 month ECL) £000	Trade debtors (Simplified approach ECL) £000	Non-current debtors (Lifetime ECL) £000	Total £000
Opening balance as at 1 April 2021	(2)	(1,455)	(187)	(1,644)
New financial assets originated or purchased	(19)	(286)	103	(202)
Closing balance as at 31 March 2022	(21)	(1,741)	(84)	(1,846)

	Short term Investments (12 month ECL) £000	Trade debtors (Simplified approach ECL) £000	Non-current debtors (Lifetime ECL) £000	Total £000
Opening balance as at 1 April 2020	(13)	(967)	(84)	(1,064)
New financial assets originated or purchased	11	(488)	(103)	(580)
Closing balance as at 31 March 2021	(2)	(1,455)	(187)	(1,644)

32.2. Credit Risk: Treasury Investments

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

A limit is placed on the amount of money that can be invested with a single counterparty (other than the UK government). For unsecured investments in banks, building societies and companies, a smaller limit applies. The Council also sets limits on investments in certain sectors. No more than 50% of each counterparty limit can be invested for a period longer than one year.

The table below summarises the credit risk exposures of the principal outstanding on Council's treasury investment portfolio by credit rating and remaining time to maturity:

Credit Rating	As at 31 March 2021		As at 31 March 2022	
	Non-current £000	Current £000	Non-current £000	Current £000
AA-	0	0	0	8,000
A	0	6,000	0	6,000
Unrated local authorities and Central Government	0	127,000	0	121,000
Unrated building societies	0	0	0	32,000
Total subject to Credit rating	0	133,000	0	167,000
Credit risk not applicable*	9,493	0	10,082	0
Total investments	9,493	133,000	10,082	167,000

Notes to the Balance Sheet

* Credit risk is not applicable to shareholdings and pooled funds where the Council has no contractual right to receive any sum of money.

32.3. Credit Risk: Trade Receivables and Contract Assets

The Council's credit risk on lease receivables is mitigated by its legal ownership of the assets leased, which can be repossessed if the debtor defaults on the lease contract.

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

	Range of Loss Allowance	31 March 2021 £000	31 March 2022 £000
Neither past due nor impaired	1%	2,089	3,133
Past due 31 - 60 days	1%	526	1,722
Past due 61 - 90 days	1%	131	156
Past due 91 - 120 days	25%	171	403
Past due over 120 days	50% - 100%	4,190	4,028
Total Receivables		7,107	9,442

Loss allowances on trade and lease receivables and contract assets have been calculated by reference to the Council's historic experience of default adjusted for local intelligence such as progress through the council's recovery process, or for current and forecast economic conditions. Receivables are determined to have suffered a significant increase in credit risk where they are 31 or more days past due and they are determined to be credit-impaired where they are 91 or more days past due.

Receivables are collectively assessed for credit risk in the following groupings:

	Range of loss allowances	31 March 2021 Gross receivable £000	Loss allowance £000	31 March 2022 Gross receivable £000	Loss allowance £000
Central Government	0%	0	0	0	0
Other LA's	0%	0	0	0	0
NHS Bodies	0%	0	0	0	0
Other Entities	1%-100%	7,107	(1,455)	9,442	(1,741)
Total		7,107	(1,455)	9,442	(1,741)

Receivables are written off to the Surplus or Deficit on the Provision of Services where recovery action indicates there is no realistic chance of recovery.

32.4. Liquidity Risk

As the Council has ready access to borrowing from the Public Works Loans Board, there is no significant risk that it will be unable to raise finance to meet its commitments under financial liabilities. Instead, the risk is that the Council may be bound to replenish its borrowings at a time of unfavourable interest rates. The Council's strategy is to ensure that no more than £8m of loans are due to mature within any one year through a combination of careful planning of the timing of new loans taken out, and (where it is economic to do so) making early repayments.

Notes to the Balance Sheet

The maturity analysis of borrowing included in financial liabilities is as follows:

	2020/21			2021/22		
	PWLB £000	Other £000	Total £000	PWLB £000	Other £000	Total £000
Less than one year	(6,584)	(1,304)	(7,888)	(6,001)	(1,363)	(7,365)
Between one and two years	(6,000)	(753)	(6,753)	(7,500)	(812)	(8,312)
Between two and five years	(23,260)	(1,995)	(25,255)	(20,760)	(1,502)	(22,262)
Between five and ten years	(31,170)	0	(31,170)	(31,170)	0	(31,170)
More than ten years	(79,953)	0	(79,953)	(74,953)	0	(74,953)
Total borrowing	(146,967)	(4,052)	(151,019)	(140,384)	(3,677)	(144,061)

All trade and other payables are due to be paid in less than one year.

32.5. Market risk

Interest Rate Risk

The Council is exposed to interest rate movements on its borrowings and investments. The annual Treasury Management Strategy includes expectations of interest rate movements, and prudential indicators sets maximum limits for fixed and variable interest rate exposure. Movements in interest rates have a complex impact on the Council.

For instance, a rise in interest rates would have the following effects:

- borrowings at variable rates – the interest expense will rise
- borrowings at fixed rates – the fair value of the liabilities will fall
- investments at variable rates – the interest income will rise
- investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance.

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. The analysis will also inform whether new borrowing is taken out at fixed or variable interest rates.

According to this assessment strategy, at 31 March 2022, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

- Increase in interest payable on variable rate borrowings of Nil (2020/21 Nil)
- Increase in interest receivable on variable rate investments of £1.02m (2020/21 £0.89m)
- Decrease in fair value of investments held at FVP&L of £0.05m (2020/21 £0.06m)
- Total impact on the Surplus or Deficit on the Provision of Services of £0.97m (2020/21 £0.83m)
- Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure) of £13.82m (2020/21 £17.13m)

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

Notes to the Balance Sheet

Price Risk

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

The Council's investment in a pooled property fund is subject to the risk of falling commercial property prices. This risk is limited by the Council's maximum exposure to property fund investments of £5m. A 5% fall in commercial property prices at 31st March 2022 would result in a £0.26m (2020/21: £0.23m) charge to the Surplus or Deficit on the Provision of Services which is then transferred to the Pooled Investment Funds Adjustment Account.

The Council's investment in a pooled equity funds is subject to the risk of falling share prices. This risk is limited by the Council's maximum exposure to equity investments of £5m. A 5% fall in share prices at 31st March 2022 would result in a £0.06m (2020/21: £0.08m) charge to the Surplus or Deficit on the Provision of Services which is then transferred to the Pooled Investment Funds Adjustment Account.

33. Ex-Avon County Council Debt (Long-Term Liabilities)

Following Local Government Reorganisation in 1996, the responsibility for administering Avon County Council's outstanding long-term debt was transferred to Bristol City Council. All the unitary authorities in the ex-Avon area make annual contributions equivalent to principal and interest towards the long-term debts.

	2020/21 £000	2021/22 £000
North Somerset Council share of Ex-Avon Loan Debt Outstanding	(12,252)	(11,761)
Interest Paid in Year	617	592
Debt Repayments - Minimum Revenue Provision	510	490

34. Pensions Schemes Accounted for as Defined Contribution Schemes - Teachers' Pension Scheme

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by Teachers' Pensions on behalf of the Department for Education. The Scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The Scheme is a multi-employer defined benefit scheme. However, the Scheme is unfunded, and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. Valuations of the notional fund are undertaken every four years. The Council is not able to identify its share of the underlying financial position and the performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2021/22 the Council paid £1.99m to Teachers' Pensions in respect of teachers' retirement benefits (2020/21 £2.02m), representing 24.53% of pensionable pay (2020/21 24.42%). Contributions of £0.15m were payable at the year-end (2020/21 £0.17m). The expected contributions to the plan in 2022/23 are £1.49m (2020/21 £1.76m).

Notes to the Balance Sheet

The Council is also responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 35.3.

The authority is not liable to the scheme for any other entities' obligations under the plan.

35. Defined Benefit Pension Schemes

35.1. Participation in Schemes

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of retirement benefits. Although these benefits will not become payable until the employees retire, the Council has a commitment to make the payments that need to be accounted for at the time that employees earn their future entitlement.

The Council participates in two defined benefit pension schemes:

- the Local Government Pension Scheme, known as the Avon Pension Fund, administered by Bath & North-East Somerset Council. The Avon Pension Fund is a multi-employer arrangement, under which each employer is responsible for the pension costs, liabilities and funding risks relating to its own employees and former employees. This is a funded defined benefit final salary scheme, meaning that the authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets. Each employer's contributions to the Fund are calculated in accordance with the LGPS regulations, which require an actuarial valuation to be carried out every three years.
- arrangements for the award of discretionary post-retirement benefits to teachers upon early retirement. This is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions liabilities, and cash must be generated to meet actual pensions payments as they eventually fall due.

Pensions assets and liabilities recognised in the Balance Sheet

The total net liability in the Balance Sheet in respect of defined benefit schemes is as follows:

	2020/21			2021/22		
	Funded £000	Unfunded £000	Total £000	Funded £000	Unfunded £000	Total £000
Local Government Pension Scheme						
Present value of the defined benefit obligation	(745,863)	(15,328)	(761,191)	(753,031)	(14,565)	(767,596)
Fair value of plan assets	483,893	0	483,893	522,078	0	522,078
Net liability arising from defined benefit obligation	(261,970)	(15,328)	(277,298)	(230,953)	(14,565)	(245,518)
Unfunded Teachers' Discretionary Benefits						
Present value of the defined benefit obligation	0	(21,582)	(21,582)	0	(20,468)	(20,468)
Net liability arising from defined benefit obligation	0	(21,582)	(21,582)	0	(20,468)	(20,468)
Net liability arising from defined benefit obligation - Total	(261,970)	(36,910)	(298,880)	(230,953)	(35,033)	(265,986)

Notes to the Balance Sheet

Transactions Relating to Post-Employment Benefits

The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pension. However, the charge the Council is required to make against Council Tax is based on the cash payable in the year, so the real cost of post-employment / retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement.

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year for both the Local Government Pension Scheme (LGPS) and the Teachers Discretionary Benefits (Teachers):

	2020/21			2021/22		
	LGPS £000	Teachers £000	Total £000	LGPS £000	Teachers £000	Total £000
Comprehensive Income and Expenditure Statement						
<i>Cost of Services:</i>						
- Current Service Cost	13,124	0	13,124	17,714	0	17,714
- Past service cost (gain)	0	0	0	0	0	0
- (Gains) / Losses from Settlements & Curtailments	(761)	0	(761)	(2,608)	0	(2,608)
<i>Financing and Investment Income and Expenditure:</i>						
- Net Interest Cost	5,757	494	6,251	5,666	437	6,103
- Administration Expense	245	0	245	260	0	260
Net interest on net defined benefit pension liability & administration costs	6,002	494	6,496	5,926	437	6,363
Net Charge to Surplus or Deficit on Provision of Services	18,365	494	18,859	21,032	437	21,469
<i>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:</i>						
- Return on Plan Assets (Gains) / Losses, excluding the amount included in the net interest expense	(62,143)	0	(62,143)	(37,872)	0	(37,872)
- Experience (Gains) / Losses	(14,901)	(337)	(15,238)	2,098	60	2,158
- Actuarial (Gains) / Losses arising on changes in financial assumptions	99,964	1,685	101,649	(12)	186	174
- Actuarial (Gains) / Losses arising on changes in demographic assumptions	0	0	0	(5,806)	(205)	(6,011)
Remeasurement of the net defined benefit liability	22,920	1,348	24,268	(41,592)	41	(41,551)
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	41,285	1,842	43,127	(20,560)	478	(20,082)
Movement in Reserves Statement						
Reversal of Net charge made to the Surplus or Deficit on Provision of Services for post employment benefits in accordance with the Code	(18,365)	(494)	(18,859)	(21,032)	(437)	(21,469)
Actual amount charged against the General Fund Balance for pensions in the year: Employers' contributions payable to the scheme	10,820	1,662	12,482	11,220	1,592	12,812
Amount by which Pension costs charged to the Comprehensive Income Statement is different from that chargeable in accordance with statutory requirements	(7,545)	1,168	(6,377)	(9,812)	1,155	(8,657)

Notes to the Balance Sheet

35.2. Local Government Pension Scheme

The Local Government Pension Scheme is a funded defined benefit scheme based on average pensionable salary. This means that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

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

	2020/21 £000	2021/22 £000
Opening Fair Value of Scheme Assets	419,708	483,893
Interest Income	10,010	10,096
Administration Expenses	(245)	(260)
Remeasurement Gains / (Losses)		
- The return on plan assets, excluding any amount in the net interest expense	62,143	37,872
Employers' Contributions	10,820	11,220
Employee Contributions	2,737	2,899
Settlements	(575)	(2,131)
Benefits Paid	(20,705)	(21,511)
Closing Balance at 31 March	483,893	522,078

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

	2020/21			2021/22		
	Funded £000	Unfunded £000	Total £000	Funded £000	Unfunded £000	Total £000
Opening Balance at 1 April	(651,695)	(14,846)	(666,541)	(745,863)	(15,328)	(761,191)
Current Service Cost	(13,124)	0	(13,124)	(17,714)	0	(17,714)
Past service cost	0	0	0	0	0	0
Interest Cost	(15,422)	(345)	(15,767)	(15,451)	(311)	(15,762)
Contributions by Scheme participants	(2,737)	0	(2,737)	(2,899)	0	(2,899)
Remeasurement Gains / (Losses);						
- Experience Gains / (Losses)	14,550	351	14,901	(2,056)	(42)	(2,098)
- Gains / (Losses) on financial assumptions	(98,444)	(1,520)	(99,964)	12	0	12
- Gains / (Losses) on demographic	0	0	0	5,699	107	5,806
Benefits Paid	19,673	1,032	20,705	20,502	1,009	21,511
Settlements / Curtailments	1,336	0	1,336	4,739	0	4,739
Closing Balance at 31 March	(745,863)	(15,328)	(761,191)	(753,031)	(14,565)	(767,596)

The accounting effect of the transfers of staff to academies during the year is shown under the settlement figures above.

Notes to the Balance Sheet

Composition of Scheme Assets

	Quoted (Y/N)	2020/21 £000	2020/21 £000
Cash and Cash Equivalents:			
- Cash Accounts	Y	14,198	8,271
Equity Instruments:			
- Global	Y	155,290	212,186
- Emerging markets	Y	26,176	0
Bonds:			
- UK Government Indexed	Y	68,350	64,707
- Sterling Corporate Bonds	Y	40,928	38,991
Property:			
- Property Funds	Y	34,839	34,732
Alternatives:			
- Hedge Funds	Y	25,231	15,058
- Diversified Growth Funds	Y	45,763	47,949
- Infrastructure	Y	37,613	45,696
- Secured Income	Y	25,589	41,601
- Exchange Traded Funds	Y	9,916	9,315
- Private Funds	Y	0	3,572
Closing Balance at 31 March		483,893	522,078

Basis for Estimating Assets and Liabilities

Pensions Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions including, for example mortality rates and salary levels. Both the LGPS and discretionary teachers' benefits liabilities have been assessed by Mercer Limited, an independent firm of actuaries, providing estimates for the Avon Pension Fund based on the latest full valuation of the scheme as at 31 March 2019. The estimated duration of liabilities (at later of 31 March 2019 and admission date) is 15 years.

The significant assumptions used by the actuary in their calculations were:

	2020/21	2021/22
Rate of CPI inflation	2.7%	3.4%
Rate of increases in salaries	4.2%	4.9%
Rate of increases in pensions	2.8%	3.5%
Rate for discounting scheme liabilities	2.1%	2.8%
Mortality Assumptions		
Longevity at 65 for current pensioners	Years	Years
Men	23.3	23.1
Women	25.4	25.3
Longevity at 65 for future pensioners in 20 years time	Years	Years
Men	24.8	24.6
Women	27.4	27.3

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible

Notes to the Balance Sheet

changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant.

The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

	2020/21	2021/22
	£000	£000
Impact of the Defined Benefit Obligation in the Scheme:		
Longevity - 1 year increase in life expectancy	23,068	23,015
Rate of inflation - 0.1% increase	11,807	11,906
Rate of increase in salaries - 0.1% pay growth	961	830
Rate for discounting Scheme Liabilities - 0.1% increase in discounting rate	(11,627)	(11,725)

Governance and Risk Management

As the administering authority, Bath and North East Somerset Council (B&NES), has legal responsibility for the pension fund as set out in the Local Government Pension Scheme Regulations. B&NES delegates its responsibility to the Avon Pension Fund Committee, which is the formal decision-making body for the Fund. The Avon Pension Fund Committee is responsible for the Funds' investment, funding, administration and communication strategies. It also monitors the performance of the fund, and approves and monitors compliance of the statutory statements and policies required under the Regulations. The Committee is supported by an Investment Panel, which considers the investment strategy and investment performance in greater depth.

Impact on the Council's Cash flows

The Fund targets a pension paid throughout life. The amount of pensions depends on how long employees are active members of the scheme and their salary when they leave the scheme ("final salary scheme") for service up to 31 March 2014, and on revalued average salary ("career average scheme") for service from 1 April 2014.

Regulations governing the Fund require actuarial valuations to be carried out every three years. Contributions for each employer are set having regard to their individual circumstances. The Regulations require the contributions to be set with a view to targeting the Fund's solvency, and the detailed provisions are set out in the Fund's Funding Strategy Statement. The most recent valuation of the Avon Pension Fund as at 31 March 2019, showed a shortfall of assets against liabilities of £258 million, equivalent to a funding level of 95%.

The Council's contribution rate for 2021/22 was 17.8% (2020/21 17.8%) and, along with other employers in the Fund, is paying additional contributions (equivalent to 7.1% for 2021/22 (2020/21 6.9%) over a period of up to 11 years in order to meet the shortfall. The Council estimates its employer contributions to the Fund for 2021/22 will be £10.59m, including £2.45m (equivalent to 6.0% of pensionable pay) in respect of deficit recovery (Estimates in 2020/21 for 2021/22 were £10.48m, £2.39m, 6.9% respectively).

Risks and Investment Strategy

The Avon Pension Fund does not have an explicit asset and liability matching (ALM) strategy. The primary objective of its investment strategy is to generate positive real investment return above the

Notes to the Balance Sheet

rate of inflation for a given level of risk to meet the liabilities as they fall due over time. When setting the investment strategy, the expected volatility of the assets relative to the value placed on the liabilities is measured and taken into account. The aim of the strategy and management structure is to minimise the risk of a reduction in the value of the assets and maximise the opportunity for asset gains across the Fund.

To achieve its investment objective the Fund invests across a diverse range of assets such as equities, bonds, property and other alternative instruments, and uses a number of investment managers. The risk management process identifies and mitigates the risks arising from the Fund's investment strategy and policies, which are reviewed regularly to reflect changes in market conditions. As a result of its investment strategy, the Fund is exposed to a variety of financial risks, including market risk (market price, interest rate and currency risk), credit risk and liquidity risk.

- Market Risk – the objective of the investment strategy is to manage and control market risk within acceptable parameters, while optimising the return. Volatility in market risk is managed through diversification across asset class and investment managers.
- Credit Risk – as the market values of investments reflect an assessment of creditworthiness in their pricing, the risk of loss is implicitly provided for in the carrying value of the assets and liabilities.
- Liquidity Risk – the investment strategy and cash management policy ensure that the pension fund has adequate cash to meet its working requirements. The Fund has immediate access to its cash holdings and a substantial portion of the Fund's investments consist of readily realisable securities, in particular equities and fixed income investments. The main liabilities of the Fund are the benefits payable as they fall due over a long period and the investment strategy reflects the long-term nature of these liabilities.

The principal risks to the Council of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (ie large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund the amounts required by statute as described in the accounting policies note.

35.3. Unfunded Teachers' Discretionary Benefits

The Council's is responsible for any additional discretionary pension benefits awarded to teachers upon early retirement outside of the terms of the teachers' pension scheme.

Pensions assets and liabilities recognised in the Balance Sheet

The present value of the defined benefit obligation in the Balance Sheet as at 31 March 2022 is £20.5m (31 March 2021 £21.6m). There are no assets associated with the scheme.

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

	2020/21 £000	2021/22 £000
Opening Balance at 1 April	(21,402)	(21,582)
Interest Cost	(494)	(437)
Remeasurement Gains / (Losses)	(1,348)	(41)
Benefits Paid / Transfers	1,662	1,592
Closing Balance at 31 March	(21,582)	(20,468)

Notes to the Balance Sheet

Basis for Estimating Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions include, for example, mortality rates and salary levels. The liabilities have been assessed by Mercer Limited, an independent firm of actuaries, providing estimates for the Avon Pension Fund, based on the latest full valuation of the scheme as at 31 March 2019. The estimated duration of liabilities (at later of 31 March 2019 and admission date) is 9 years.

The main assumptions used in their calculations have been:

	2020/21 £000	2020/21 £000
Rate of CPI inflation	2.7%	3.5%
Rate of increases in pensions	2.8%	3.6%
Rate for discounting scheme liabilities	2.1%	2.8%
Mortality Assumptions		
Longevity at 75 for current pensioners	Years	Years
Men	14.4	14.3
Women	16.2	16.1

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period, and assumes for each change that the assumption analysed changes while all the other assumptions remain constant.

The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

	2020/21 £000	2021/22 £000
Impact of the Defined Benefit Obligation in the Scheme:		
Longevity - 1 year increase in life expectancy	888	853
Rate of inflation - 0.1% increase	197	186
Rate for discounting Scheme Liabilities - 0.1% increase in discounting rate	(193)	(184)

Governance and Risk Management

The Teachers' Pension Scheme arrangements are managed centrally by government departments / agencies, and there is no material involvement for the Council.

Impact on the Council's Cash flows

The Scheme targets a pension paid throughout life. The amount of pensions depends on how long employees are active members of the scheme and their salary when they leave the scheme ("final salary scheme") for service up to 31 March 2015, and on revalued average salary ("career average scheme") for service from 1 April 2015. The Council's involvement is limited to additional discretionary pension benefits to retired teachers which were awarded at the point of retirement.

Notes to the Balance Sheet

Risk Strategy

Given their unfunded nature, there are no investment risks in relation to this scheme. The greatest single risk is that the government could change the funding standards relating to the scheme, increasing the Council's contributions.

36. Leases

36.1. Authority as Lessee

Finance Leases

The Council has acquired property, vehicles and print room equipment under finance leases and sums included within the Balance Sheet are as follows:

	2020/21 £000	2021/22 £000
<u>Asset carrying values</u>		
Other land and buildings	1,131	1,099
Investment properties	3,599	4,972
Total	4,730	6,071
<u>Other long term liabilities</u>		
Finance lease liabilities	(22,091)	(21,740)
Lease premiums in advance	(388)	(388)
less lease premiums in advance included in Creditors	0	23
Total Other long term liabilities	(22,479)	(22,105)

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

	2020/21 £000	2021/22 £000
Finance lease liabilities		
- Current	(336)	(351)
- non Current	(22,091)	(21,740)
Finance costs payable in future years	(21,522)	(20,685)
Total Minimum Lease Payments	(43,949)	(42,776)

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. The minimum lease payments will be payable over the following periods:

	Minimum Lease Payments		Finance Lease Liabilities	
	2020/21 £000	2021/22 £000	2020/21 £000	2021/22 £000
Not later than one year	(1,173)	(1,180)	(336)	(351)
Later than one year and not later than five years	(4,765)	(4,795)	(1,492)	(1,554)
Later than five years	(38,011)	(36,801)	(20,598)	(20,186)
Total	(43,949)	(42,776)	(22,426)	(22,091)

Notes to the Balance Sheet

Operating Leases

The Council utilises a number of administrative buildings and its fleet of vehicles by entering into operating leases, with typical lives of 5 years for vehicles and equipment and 256 years for property. The future minimum lease payments due under non-cancellable leases in future years, and related charges to the Cost of Services in the Comprehensive Income and Expenditure Statement, are not material.

36.2. Authority as Lessor

Finance Leases

The Council has leased out 6 secondary schools and 38 primary schools to Academies on 125 year finance leases, all at peppercorn rents, which is a statutory requirement for Academies. The Council's gross investment in these leases, is made up as follows:

	2020/21 £000	2021/22 £000
Unguaranteed residual value of property	52,949	54,561
Gross investment in the leases	52,949	54,561

The gross investment in these leases is receivable in more than 100 years.

Operating Leases

The Council owns various commercial and investment property that it leases out with typical lives of 33 years under operating leases for the following purposes:

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

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

	2020/21 £000	2021/22 £000
Not later than one year	6,192	5,756
Later than one year and not later than five years	10,520	7,708
Later than five years	7,037	8,733
Total future Minimum lease payments receivable	23,749	22,197

The gross value of assets which were held for use in operating leases was £44.098m, valued at 31st March 2022 (31st March 2021: £44.504m).

Notes to the Cash Flow Statement

37. Notes to the Cash Flow Statement

37.1. Adjustments to the net surplus / (deficit) on the provision of services for non-cash movements

	2020/21 £000	2021/22 £000
Depreciation and impairment	23,559	20,053
Increase / (decrease) in creditors	32,550	(4,234)
(Increase) / decrease in debtors	(4,287)	(5,272)
(Increase) / decrease in inventories	13	27
(Increase) / decrease in impairment for bad debts	103	590
Movement in Pension liability	6,377	8,657
Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised	7,353	19,584
Other non-cash items charged to the net surplus or deficit on the provision of services	(13)	711
Net adjustments for non-cash movements	65,655	40,116

37.2. Adjustments for items included in the surplus / (deficit) on provision of services that are investing and financing activities

	2020/21 £000	2021/22 £000
Capital grants applied to the financing of capital expenditure	(34,102)	(40,376)
Proceeds from the sale of property, plant and equipment, investment property and intangible	(2,511)	(3,427)
Net adjustments for investing and financing activities	(36,613)	(43,803)

37.3. Operating Activities

The cash flows for operating activities include the following:

	2020/21 £000	2021/22 £000
Interest received	890	713
Interest paid	(6,367)	(6,661)

Notes to the Cash Flow Statement

37.4. Cash Offsetting Arrangements

Financial assets and liabilities are set off against each other where the Council has a legally enforceable right to set off and it intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. The table below shows those areas that have been offset in the balance sheet.

	2020/21 £000	2021/22 £000
Cash subject to netting arrangement	34,408	26,726
Overdraft subject to netting arrangement	(29,500)	(31,457)
Net cash subject to netting arrangement	4,908	(4,731)
Other cash and cash equivalents	5,419	314
Cash and cash equivalents presented in the Balance Sheet	10,327	(4,417)

37.5. Total liabilities from financing activities

	31 March 2021 £000	Financing cash flows £000	Non-cash changes Acquisition £000	Other £000	31 March 2022 £000
Long term borrowings	(143,213)	(295)	0	6,812	(136,696)
Short term borrowings	(7,803)	7,252	0	(6,812)	(7,363)
Short term creditors	(17,753)	0	0	(175)	(17,928)
Finance lease liabilities	(336)	336	0	(350)	(350)
Total liabilities from financing activities	(169,105)	7,293	0	(525)	(162,337)

Collection Fund

This account reflects the Council's statutory responsibility as a billing authority to maintain a separate Collection Fund, which shows the transactions in relation to council tax and business rates, and illustrates the way in which these have been distributed to preceptors and the General Fund.

	Note	2020/21			2021/22		
		Business Rates £000	Council Tax £000	Total £000	Business Rates £000	Council Tax £000	Total £000
Income							
Council Tax Receivable	CF1		(141,618)	(141,618)		(149,406)	(149,406)
Business Rates Receivable	CF2	(36,191)		(36,191)	(55,994)		(55,994)
Total Income		(36,191)	(141,618)	(177,809)	(55,994)	(149,406)	(205,400)
Expenditure							
Apportionment of Previous Years' Surplus / (Deficit)							
- Central Government		645		645	(13,968)		(13,968)
- North Somerset Council		632	(1,644)	(1,012)	(13,689)	(1,044)	(14,733)
- Police and Crime Comm. for Avon & Somerset			(248)	(248)		(158)	(158)
- Avon Fire Authority		13	(84)	(71)	(279)	(52)	(331)
		1,290	(1,976)	(686)	(27,936)	(1,254)	(29,190)
Precepts, Demands and Shares							
- Central Government		29,461		29,461	30,322		30,322
- North Somerset Council		28,872	119,551	148,423	29,716	124,611	154,327
- Police and Crime Comm. for Avon & Somerset			18,039	18,039		18,992	18,992
- Avon Fire Authority		589	5,934	6,523	607	6,018	6,625
		58,922	143,524	202,446	60,645	149,621	210,266
Charges to Collection Fund							
Write offs of uncollectable amounts		(598)	(1,500)	(2,098)	(500)	(1,595)	(2,095)
Increase / (Decrease) in Bad Debt Allowances		1,069	2,551	3,620	901	1,573	2,474
Increase / (Decrease) in Provision for Appeals		1,941		1,941	2,050		2,050
Cost of Collection		255		255	255		255
Disregarded Amounts	CF5	436		436	704		704
		3,103	1,051	4,154	3,410	(22)	3,388
Total Expenditure		63,315	142,599	205,914	36,119	148,345	184,464
(Surplus) / Deficit arising during the year		27,124	981	28,105	(19,875)	(1,061)	(20,936)
(Surplus) / Deficit b/fwd 1st April		(1,712)	2,022	310	25,412	3,003	28,415
(Surplus) / Deficit c/fwd 31st March	CF4	25,412	3,003	28,415	5,537	1,942	7,479

Notes to the Collection Fund

CF1 Council Tax

Under the council tax system, North Somerset Council must collect each year enough money from local residents to cover the cost of the services we provide, which are not funded by other sources such as government grants and fees and charges. We also collect North Somerset's share of the cost of services provided by Avon & Somerset Police, Avon Fire Authority and the Parish and Town Councils, and pass this back to them through a precept payment.

Council tax is payable on any dwelling which is not exempt. The amount of council tax that each household pays depends upon the valuation band in which the property is placed and the Parish or Town in which the dwelling is situated.

In order to set the council tax, we estimate the number of dwellings in each of eight valuation bands and convert these estimates into an "equivalent number of Band D dwellings". The table below shows the calculation for 2021/22:

Valuation Bands	Estimated number of taxable dwellings after effect of exemptions and discounts	Ratio	Equivalent number of Band D dwellings
A - up to £40,000	11,384	6/9	7,589.3
B - £40,001 to £52,000	18,798	7/9	14,620.8
C - £52,001 to £68,000	20,701	8/9	18,400.9
D - £68,001 to £88,000	15,985	9/9	15,985.0
E - £88,001 to £120,000	11,870	11/9	14,507.3
F - £120,001 to £160,000	6,077	13/9	8,777.4
G - £160,001 to £320,000	3,158	15/9	5,263.3
H - over £320,001	233	18/9	465.5
	<u>88,205</u>		85,609.5
Reduction for Council Tax Support Scheme			(6,295.2)
Reduction for Increased Discounts			(80.0)
Allowance for Losses on Collection			(1,198.5)
Allowance for New Properties			703.1
Council Tax Base for 2021/22			<u>78,738.9</u>

The total number of "equivalent Band D dwellings" is divided into the total cost of services to arrive at an "average Band D Tax" per dwelling. Dwellings in bands below "Band D" will pay proportionately less than this average and dwellings in bands above "Band D" will pay proportionately more than this average.

The above calculations resulted in an "average Band D Tax" of £1,900.21 per dwelling for 2021/22 (2020/21 - £1,812.52) after taking into account Parish variations and providing a 1.50% provision for unpaid bills (2020/21 - 0.80%), movement in council tax support claimants and new build properties not as planned.

The actual council tax income for 2021/22 was £149.406m; dividing this figure by the "average Band D Tax" results in an actual tax base of 78,626.0 dwellings. The difference between this and the total "equivalent Band D dwellings" of 78,738.9 reflects:

- Variations in the property market
- Changes in the number of exempt dwellings
- Changes in the number of dwellings qualifying for discounts

Notes to the Collection Fund

CF2 National Non-Domestic Rates

Under the Business Rates Retention Scheme, the Council acts as both principal and agent. It can retain 49% of the net standard business rates collected within the local area as income within its own budget, as well as 100% of net rates from new properties within designated areas and those relating to renewable energy schemes (Disregarded Amounts). The Council distributes the remaining net balance of standard business rate income to Central Government, who are allocated 50%, with the final 1% to the Fire Authority.

	2020/21	2021/22
Total Non-domestic Rateable Value at 31 March	£164,026,269.00	£164,689,431.00
National Non-domestic Rate Multiplier - Standard	0.512	0.512
National Non-domestic Rate Multiplier - Small Business	0.499	0.499

The Business Rates receivable amount on the face of the Collection Fund Account of £55.994m (2020/21 £36.191m), is significantly lower than the total of the Non-domestic Rateable Value multiplied by the Non-domestic Rate Multiplier due to the award of various reliefs. In particular in 2021/22, all Retail, Hospitality and Leisure businesses were granted 66% rates relief (2020/21 100%), totalling £11.538m (2020/21 £29.755m) as part of Government measures to address the impact of Covid-19.

CF3 Taxpayers' arrears

	2020/2021 £000	2021/22 £000	
Council Tax Arrears	12,677	11,984	
Business Rate Arrears	7,546	6,102	
Gross Tax Payers' Arrears at 31 March	20,223	18,086	
Council Tax Prepayments	(6,140)	(6,461)	
Business Rates Prepayments	(2,075)	(3,261)	
Gross Tax Payers' Prepayments at 31 March	(8,215)	(9,722)	
Net Tax Payers' Arrears as at 31 March	12,008	8,364	
<u>Allowance for Bad Debts</u>	2020/21 £000	2021/22 £000	% of arrears at 31 March
Council Tax	7,400	7,378	61.57%
Business Rates	2,675	3,076	50.41%
Total Tax Payers' Bad Debt Allowance	10,075	10,454	

Notes to the Collection Fund

CF4 Balance Sheet items apportionment

2021/22	Total	North Somerset	Police & Crime	Central	Avon Fire
	£000	Council	Commissioner	Government	Authority
		£000	£000	£000	£000
Council Tax					
Debtors	11,984	9,970	1,537	N/A	477
Bad Debt Allowance	(7,378)	(6,138)	(946)	N/A	(294)
Prepayments & Overpayments	(6,461)	(5,375)	(829)	N/A	(257)
(Surplus) / Deficit at 31 March	1,942	1,617	244	N/A	81
Business Rates					
Debtors	6,102	2,990	N/A	3,051	61
Bad Debt Allowance	(3,076)	(1,507)	N/A	(1,538)	(31)
Prepayments & Overpayments	(3,261)	(1,598)	N/A	(1,631)	(32)
Appeals Provision	(9,804)	(4,804)	N/A	(4,902)	(98)
(Surplus) / Deficit at 31 March	5,537	2,714	N/A	2,768	55

2020/21	Total	North Somerset	Police & Crime	Central	Avon Fire
	£000	Council	Commissioner	Government	Authority
		£000	£000	£000	£000
Council Tax					
Debtors	12,677	10,558	1,609	N/A	510
Bad Debt Allowance	(7,400)	(6,163)	(939)	N/A	(298)
Prepayments & Overpayments	(6,140)	(5,114)	(779)	N/A	(247)
(Surplus) / Deficit at 31 March	3,003	2,502	376	N/A	125
Business Rates					
Debtors	7,546	3,698	N/A	3,773	75
Bad Debt Allowance	(2,675)	(1,311)	N/A	(1,337)	(27)
Prepayments & Overpayments	(2,075)	(1,017)	N/A	(1,037)	(21)
Appeals Provision	(10,541)	(5,165)	N/A	(5,271)	(105)
(Surplus) / Deficit at 31 March	25,412	12,452	N/A	12,706	254

CF5 Business Rates – Disregarded amounts

From April 2013 the Council could retain 100% of the growth from the business rates associated with renewable energy sites, and from April 2014 the Council was also allowed to retain 100% of the growth in business rates in its Enterprise Area.

All such growth is transferred to the Council's General Fund, with the Enterprise Area growth then being pooled with other participating authorities in the City Region Deal (see Note 22 to the main financial statements for full details).

	2020/21	2021/22
	£000	£000
Renewable Energy	136	154
Enterprise Area - transfer to City Region Deal	300	550
	436	704

Accounting policies

i. General Principles

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

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

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

ii. Recognition of Income and Expenditure

The Council recognises its revenue and capital income and expenditure on an accruals basis. Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations of the contract, in line with IFRS 15 'Revenue from contracts with service recipients'.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including those provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Revenue relating to council tax and non-domestic rates is measured at the full amount receivable (net of any impairment losses).

iii. Council Tax and Non-Domestic Rates

The Council is required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of Council Tax and NDR. The Council acts as agent, collecting Council Tax and Non-Domestic Rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principal, collecting Council Tax and NDR for itself.

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

Accounting policies

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

Where debtor balances for the above are identified as impaired, the asset is written down and a charge made to the 'Taxation and Non-Specific grant income' line in the CIES.

iv. Government Grants and Contributions

Government grants and third-party contributions are recognised when there is reasonable assurance that the Council will comply with the conditions attached to the payments, and that the grants or contributions will be received.

Where conditions attached to grants or contributions have not been satisfied, monies received to date are carried in the Balance Sheet as receipts in advance. When conditions are satisfied, the grant or contribution is credited to the relevant service line (service specific revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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

v. Accounting for Schools

The Code of Practice on Local Authority Accounting in the United Kingdom confirms that the balance of control for council maintained schools lies with the Council.

The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the Council's financial statements (and not the Group Accounts). Therefore, maintained schools' transactions, cash flows and balances are recognised in each of the financial statements of the Council as if they were the transactions, cash flows and balances of the Council (see Note 1 – Critical Judgements in applying accounting policies).

vi. Charges to Revenue for Non-Current Assets

To record the cost of holding non-current assets during an accounting period, services, support services and trading accounts are debited with:

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

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

Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance (Minimum Revenue Provision), by way of an adjusting

Accounting policies

transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

vii. Employee Benefits

Benefits Payable during Employment

Short-term employee benefits include such benefits as wages and salaries, paid annual leave and sick leave, and expenses, are paid on a monthly basis, and are recognised on an accruals basis as expenditure in the relevant service line within the Comprehensive Income and Expenditure Statement.

Termination Benefits

When the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy, these costs are charged on an accruals basis to the respective Service line in the Comprehensive Income and Expenditure Statement.

Post-Employment Benefits

The Council accounts for post-employment benefits when it is committed to give them, even if the actual giving will be many years into the future. In this way the accounts represent the employer's commitment to increase contributions to make up any shortfall in attributable net assets, or its ability to benefit (via reduced contributions) from a surplus in the scheme.

Employees of the Council are members of three different pension schemes:

- The Local Government Pension Scheme, administered by Bath & North East Somerset Council
- The Teachers' Pensions Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE)
- The NHS Superannuation Scheme

The Local Government Pension Scheme

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

- Liabilities attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions including, for example, mortality rates, employee turnover rates, and projections of future earnings for current employees.
- Assets within the scheme attributable to the Council are included in the Balance Sheet at their fair value.

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

Service cost, comprising:

- Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in Comprehensive Income and Expenditure Statement to the services for which the employees worked.
- Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Service Costs.

Accounting policies

- Net Interest on the net defined benefit liability – i.e. net interest expense for the Council – the change during the period in the net defined benefit liability that arises from the passage of time - charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period – taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.

Re-measurement of the net defined benefit liability, comprising:

- Return on plan assets – excluding amounts included in net interest expense on the net defined benefit liability – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- Experience gains and losses - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- Actuarial gains and losses – changes in the net pensions liability that arise because the actuaries have updated their financial or demographic assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- Statutory provisions require the General Fund balance to be charged only with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, transfers are made to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits, and to 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 therefore measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows, rather than as benefits are earned by employees.

Teachers' Pension Scheme and NHS Superannuation Scheme

The centralised arrangements for the Teachers' and NHS schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. These schemes are therefore accounted for as if they were defined contribution schemes, and no liability for future payments of benefits recognised in the Balance Sheet.

The Children and Young People line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to the Teachers' Pension Scheme. The Public Health line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to the NHS Pension Scheme in the year.

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 (including teachers) 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.

viii. *Overheads and Support Services*

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

Accounting policies

ix. Property, Plant and Equipment (PPE)

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

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis as a transaction at the end of each financial year, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council 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. The Council usually recognises amounts in excess of £10,000 as Property, Plant and Equipment (PPE) expenditure.

School Assets

School PPE assets are consolidated into the single entity financial statements where:

- it is probable that the future economic benefits or service potential associated with the item will flow to the Council
- the cost of the item can be measured reliably.

Where legal title does not lie with the Council, but under the terms of the lease, trust deed or 'mere licence' the recognition tests are met, the asset is accounted for in the Council's single entity accounts

Measurement

Assets are initially measured at cost, comprising:

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

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

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

- community assets and assets under construction – depreciated historical cost
- council offices – current value, determined as the amount that would be paid for the asset in its existing use (existing use value - EUV) based on capitalisation of estimated market rent
- school buildings – current value, but because of their specialist nature, are measured at depreciated replacement cost, which is used as an estimate of current value
- car parks – current value, based on capitalisation of actual or notional income as applicable
- community assets – depreciated historic cost, or may elect to value at a valuation which is considered to be appropriate and relevant
- surplus assets – the current value measurement base is fair value, estimated at the highest and best use from a market participant's perspective
- all other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value - EUV).

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

Accounting policies

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

Revaluation

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

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 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.

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.

The Section 151 Officer obtains an annual appraisal of trends in property values from the Council's Property Estates and Regeneration Manager in respect of the Council's assets. Based on this appraisal a judgement will be made as to whether any amendment to the Council's accounts is required or whether an adjustment is needed to its revaluation programme in respect of changes to asset values for assets not revalued in the year.

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, 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.

The Section 151 Officer is provided with an annual statement from the Property Estates & Regeneration Manager of any of the Council's assets that suffered an impairment loss during the year.

Depreciation

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

Accounting policies

Depreciation is calculated as at 1 April each year calculated on the following basis:

- buildings – straight-line allocation over the useful life of the property as estimated by the valuer (between 1 and 125 years)
- vehicles, plant, furniture and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer (between 1 and 50 years)
- community assets – straight-line allocation over the useful life of the property as estimated by the valuer (between 1 and 50 years)
- surplus assets not held for sale – straight-line allocation over the useful life of the property as estimated by the valuer (between 1 and 60 years)

The remaining life of the Council's assets is determined by the Council's Property Estates & Regeneration Manager or other professional staff under his/her control when the asset is acquired or at the time of revaluation. If the existing use of an asset changes at any time or an asset becomes surplus to requirements, then its finite useful life will be re-assessed.

Where an item of Property, Plant and Equipment, excluding Infrastructure, has a value in excess of £3m, and has major components whose cost is greater than 20% of the total cost of the asset, the components are depreciated separately.

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

Disposals

When an asset is disposed of the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts.

The net loss or gain on disposal is not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement. Disposals are reflected as transactions at the end of the financial year.

x. Infrastructure Assets

Highways network infrastructure assets include carriageways, footways and cycle tracks, structures (eg bridges), street lighting, street furniture (eg illuminated traffic signals, bollards), traffic management systems and land which together form a single integrated network.

Similarly, sea defences take the form of a network of assets, where there are many different components working as a part of a continuous network of assets that is maintained in a relatively steady state.

Recognition

Expenditure on the acquisition or replacement of components of the network is capitalised on an accrual basis, provided that it is probable that the future economic benefits associated with the item will flow to the Authority and the cost of the item can be measured reliably.

Accounting policies

Measurement

infrastructure assets are generally measured at depreciated historical cost. However, this is a modified form of historical cost - opening balances for infrastructure assets were originally recorded in balance sheets at amounts of capital undischarged for sums borrowed as at 1 April 1994, which was deemed at that time to be historical cost.

Where impairment losses are identified, they are accounted for by the carrying amount of the asset being written down to the recoverable amount.

Depreciation

Depreciation is provided on the parts of the infrastructure assets that are subject to deterioration or depletion and by the systematic allocation of their depreciable amounts over their useful lives.

Depreciation is calculated as at 1 April each year calculated on the following basis:

- Highways network Infrastructure assets are depreciated on a straight-line basis over a weighted average useful life, as estimated by officers with relevant experience and expertise, calculated at 23 years, except a small number of projects where a useful life of 20 years was applied.
- Sea defences infrastructure assets are depreciated on a straight-line allocation over the useful life of the property, as estimated by officers with relevant experience and expertise (60 years).
- Land held within infrastructure assets is judged to have an indefinite useful life, and so is not depreciated.

Disposals and derecognition

When a component of the Network is disposed of or decommissioned, the carrying amount of the component in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement, also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal).

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

Where a part of the network is replaced, an adaptation provided in a separate update to the Code assumes that from the introduction of the IFRS based Code when parts of an asset are replaced or restored the carrying amount of the derecognised part will be zero because parts of infrastructure assets are rarely replaced before the part has been fully consumed.

xi. Revenue Expenditure Funded from Capital Under Statute

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

Accounting policies

xii. Investment Property

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

Investment properties are measured initially at cost and subsequently at fair value.

As non-financial assets, investment properties' fair value are measured at 'highest and best' use. Properties are not depreciated but are revalued annually according to market conditions at the year-end.

Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund balance. The gains and losses are therefore reversed out of the General Fund balance in the Movement in Reserves Statement, and posted to the Capital Adjustment Account and Capital Receipts Reserve.

Net rental income received from investment properties is credited to the Financing and Investment Income and Expenditure line, and result in a gain for the General Fund balance.

xiii. Financial Instruments

Under IFRS9 'Financial Instruments', Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics.

There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The authority's business model is to hold investments to collect contractual cash flows. Financial assets are therefore measured at amortised cost, except for those whose contractual payments are not solely payment of principal and interest (ie where the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable is the amount receivable for the year in the loan agreement, which is assessed to not be materially different from interest calculated based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the authority, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest).

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

Accounting policies

Expected Credit Loss Model

The authority recognises expected credit losses on all of its financial assets held at amortised cost either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets.

Impairment losses reflect the expectation that future cash flows might not take place because the borrower could default on their obligations. Where credit risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed based on 12-month expected losses.

The Council's short-term investments relate to fixed term, fixed interest rate deposits. These are considered to remain low credit risk. Hence expected credit losses on these assets are assessed on a 12-month basis.

Where the authority does not have reasonable and supportable information that is available without undue cost or effort to support the measurement of lifetime expected losses on an individual instrument basis, it has assessed losses for the portfolio on a collective basis. Financial assets where this approach has been applied are:

- long term debtors relating to mortgages granted to home owners
- trade receivables relating to contracts

The authority considers that the presentation of impairments / credit losses in service segments, rather than in Financing and Investment Income and Expenditure as required by the Code, better reflects the economic reality of the transactions, whilst still providing a 'true and fair view', due to the non-material value of the losses.

Financial Assets Measured at Fair Value through Profit of Loss

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

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

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

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

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument. They are initially measured at fair value and are carried at their amortised cost.

For most of the borrowings that the Council has, the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Accounting policies

xiv. Fair Value Measurement

The Council measures some of its non-financial assets, such as investment properties, and some of its financial instruments, such as equity shareholdings, at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

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

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorised within the fair value hierarchy, as follows:

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

xv. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in 30 days or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

xvi. Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the

Accounting policies

obligation, taking into account relevant risks and uncertainties. When payments are eventually made, they are charged to the provision carried in the Balance Sheet.

Contingent Liabilities

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

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

xvii. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

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

The Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases 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 Council 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 or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

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

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; even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

Accounting policies

The Council as Lessor

Finance Leases

Where the authority grants a finance lease over a property, or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. The carrying value of the asset in the Balance Sheet is written off to the Other Operating Expenditure line of the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal.

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

Operating Leases

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

xviii. Reserves

The Council sets aside specific amounts as usable reserves for future policy purposes or to cover contingencies. For each reserve established, the purpose, usage and the basis of transactions is clearly identified.

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

‘Unusable’ reserves are kept to manage specific accounting processes for non-current assets, financial instruments, retirement and employee and post-employment benefits, and do not represent usable resources for the Council – these reserves are explained in the relevant notes.

xix. Events After the Reporting Period

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

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

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

Accounting policies

xx. VAT

VAT payable is included as an expense only to the extent that it is not recoverable. VAT receivable is excluded from income.

xxi. Allocation between Current and Non-Current

Except for employee entitlements, the determination of whether an asset or liability is current or non-current, consideration is given to the time when each asset or liability is expected to be realised or paid. The asset or liability is classified as current if it is expected to be turned over within the next 12 months, being the Council's operational cycle. For employee entitlements, all annual leave entitlement is classified as current.

xxii. City Region Deal

The Council has applied the principles of IPSAS23 'Revenue from non-Exchange transactions' (taxes and transfers) in accounting for the transactions and balances relating to the City Region Deal.

City Region Deal business rates growth paid to the accountable body (South Gloucestershire Council) for the Business Rates Pool (BRP) is recognised by the Council as a debtor until such point that the funds are paid out by the BRP or committed and allocated by the Economic Development Fund (EDF) to fund EDF payments in respect of approved programmes.

- Income - Income receivable by the Council from the BRP is recognised as revenue in the year in which it is due. The Council recognises revenue and a debtor balance to the extent that EDF disbursements are to be received, have been committed to by the EDF, and sufficient cash remains in the BRP to fund the payments.
- Expenditure – Expenditure is recognised by the Council on payments being made by the BRP. Expenditure is recognised in proportion to the degree that the Council has contributed to the BRP through its growth figure, and is capped at the limit of the Council's payment of growth to the BRP in this period, and any previous growth figures paid over which have not been previously paid or committed by the BRP.

xxiii. Joint Operations

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

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

xxiv. Interests in companies and other entities

The Council has interests in two companies that have been classified as subsidiaries - North Somerset Inspire Ltd, and North Somerset Environment Company Ltd. North Somerset Inspire Limited has been dormant throughout the year.

Accounting policies

As the impact of the North Somerset Environment Company Ltd subsidiary has been judged to be material to the potential group accounts, the Council has chosen to prepare group accounts including this subsidiary.

In the Council's single entity accounts, the interest is recorded as financial assets at cost less any provision for losses. This interest is not material to the single entity accounts and so has not been separately disclosed, other than in Note 23 – Related Party Transactions.

The Council has an interest in a further company that has been classified as a joint venture, Adoption West Limited. As the investment in the joint venture is judged not to be material to the Council's single entity accounts, or potential group accounts, the Council has not included this joint venture in group accounts.



Group Accounts

Group Accounts

Introduction

In common with many other local authorities, North Somerset Council has created a separate company to further the goals of the Council. North Somerset Environment Company Ltd (NSEC) is a private company limited by shares, set up by North Somerset with the primary aim of delivering the Council's waste collection and recycling contract. The Council owns a £1 Ordinary share in the company, representing 100% of the company's share capital.

The use of this separate company means that the Council's single entity financial statements on their own do not fully reflect the income and expenditure associated with its activities. These group accounts more fully reflect the overall financial picture of the Council's activities.

This section presents the consolidated group accounts for North Somerset Council and NSEC for the period from 1 April 2021 to 31 March 2022. The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (The Code) published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

These group accounts have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. No consolidation adjustments have been necessary to align accounting policies. Details of policies which related solely to the subsidiary, which cover elements of business the Council as a single entity does not cover, have been included in the group accounts.

The group accounts contain the core statements similar in presentation to the Council's single entity accounts but consolidating the figures of the Council with NSEC. Copies of NSEC's audited accounts are available from the Council or from Companies House.

The following pages include the:

- Group Movement in Reserves Statement,
- Group Comprehensive Income and Expenditure Statement,
- Group Balance Sheet,
- Group Cash Flow Statement,
- associated notes to the accounts, where there are significant differences between the Council's single entity accounts and the consolidated group, and
- Group accounting policies.

Group Accounts

Group Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the group, analysed into usable reserves and other reserves.

	Note	Usable Reserves								Unusable Reserves									TOTAL AUTHORITY RESERVES £000	Authority's share of reserves of Subsidiaries, Associates and Joint Ventures £000	TOTAL RESERVES, INCLUDING GROUP £000	
		General Fund Earmarked Reserves					Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Revaluation Reserve £000	Capital Adjustment Account £000	Collection Fund Adjustment Account £000	Pensions Reserve £000	Dedicated Schools Grant Adjustment Account £000	Financial Instruments Adjustment Account £000	Accumulated Absences account £000	Deferred Capital Receipts Reserve £000	Pooled Investment Funds Adjustment Account £000				Total Unusable Reserves £000
		General Fund Balance £000	LMS School Balances £000	Other Schools Balances £000	Other Earmarked Revenue Reserves £000	Earmarked Capital Reserves £000																
Balance at 1 April 2021	8, 9	(9,053)	(2,325)	(334)	(66,613)	(6,200)	(12,129)	(4,690)	(101,344)	(92,272)	(152,055)	15,358	298,881	7,150	110	1,645	(59)	545	79,303	(22,041)	0	(22,041)
Total Comprehensive Income and Expenditure	CIES	(24,830)	0	0	0	0	0	0	(24,830)	(9,166)	0	0	(41,551)	0	0	0	0	0	(50,717)	(75,547)	8,069	(67,478)
Adjustments between group accounts and authority accounts (Group a/cs)		7,780	0	0	0	0	0	0	7,780	0	0	0	0	0	0	0	0	0	0	7,780	(7,780)	0
Net increase or decrease before transfers (Group a/cs)		(17,050)	0	0	0	0	0	0	(17,050)	(9,166)	0	0	(41,551)	0	0	0	0	0	(50,717)	(67,767)	289	(67,478)
Adjustments between accounting basis & funding basis under regulations	7	2,688	0	0	0	0	(1,342)	(3,494)	(2,148)	9,976	(10,926)	(10,811)	8,657	6,297	50	(512)	6	(589)	2,148	0	0	0
Transfers between Usable Reserves	8.1	13,671	(676)	(53)	(11,826)	(1,116)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
(Increase) / Decrease in 2021/22	8, 9	(691)	(676)	(53)	(11,826)	(1,116)	(1,342)	(3,494)	(19,198)	810	(10,926)	(10,811)	(32,894)	6,297	50	(512)	6	(589)	(48,569)	(67,767)	289	(67,478)
Balance at 31 March 2022 - carried forward	8, 9	(9,744)	(3,001)	(387)	(78,439)	(7,316)	(13,471)	(8,184)	(120,542)	(91,462)	(162,981)	4,547	265,987	13,447	160	1,133	(53)	(44)	30,734	(89,808)	289	(89,519)

Group accounts

Group Comprehensive Income and Expenditure Statement

Income and expenditure relating to NSEC, but external to the Council, has been added as a separate line item in the Cost of Services section. No entries in NSEC's accounts related to other entries in the CIES.

	Note	2020/2021 As re-stated			2021/2022		
		Gross Expenditure	Gross Income	Net Expenditure	Group Gross Expenditure	Group Gross Income	Group Net Expenditure
		£000	£000	£000	£000	£000	£000
Adult Social Services							
Adult Social Care		115,000	(41,116)	73,884	110,977	(50,467)	60,510
Housing Services		4,743	(3,650)	1,093	5,225	(4,378)	847
		119,743	(44,766)	74,977	116,202	(54,845)	61,357
Childrens Services							
Childrens Services		38,326	(5,550)	32,776	34,982	(8,139)	26,843
Schools Budgets & Grants		57,551	(56,737)	814	64,132	(52,216)	11,916
		95,877	(62,287)	33,590	99,114	(60,355)	38,759
Place		86,284	(34,846)	51,438	68,781	(24,001)	44,780
Corporate Services		71,125	(64,307)	6,818	81,153	(57,916)	23,237
Public Health & Regulatory services		11,741	(11,343)	398	14,555	(18,366)	(3,811)
Non Service		3,042	(2,700)	342	2,649	(2,682)	(33)
North Somerset Environment Company (NSEC)		0	0	0	10,365	(2,296)	8,069
Cost of Services	10	387,812	(220,249)	167,563	392,819	(220,461)	172,358
Other Operating Expenditure	11	12,572	0	12,572	18,036	0	18,036
Financing and investment income and expenditure	12	12,995	(2,566)	10,429	12,927	(2,757)	10,170
Taxation and non-specific grant income	13	0	(206,101)	(206,101)	0	(217,325)	(217,325)
(Surplus) / Deficit on Provision of Services	10,16	413,379	(428,916)	(15,537)	423,782	(440,543)	(16,761)
(Surplus) / deficit on revaluation of non-current assets	9.2			(23,350)			(9,166)
Remeasurements of net defined benefit liability	9.6			24,268			(41,551)
Other Comprehensive (Income) and Expenditure				918			(50,717)
Total Comprehensive (Income) and Expenditure				(14,619)			(67,478)

Group accounts

Group Balance Sheet

The assets and liabilities of NSEC have been consolidated with those of the Council to present a combined balance sheet. However, this does not give rise to material changes to any of the balances over the Council's own balance sheet.

	<i>Note</i>	31 March 2021 £000	31 March 2022 £000
Property, Plant and Equipment			
Other Land and Buildings	24.1	183,785	175,903
Infrastructure Assets	24.1	128,037	149,557
Community Assets	24.1	5,036	5,036
Vehicles, Plant, Furniture and Equipment	24.1	11,006	10,513
Assets Under Construction	24.1	54,703	49,762
Surplus assets	24.1	629	629
Intangible Assets	24.1	200	150
Heritage Assets		288	288
Investment Property	25	44,770	45,707
Long Term Investments	31.1	9,493	10,082
Long Term Debtors	31.1	4,797	4,612
Long Term Assets		442,744	452,239
Cash and Cash Equivalents	<i>CFS, 31.1</i>	10,327	2,076
Short Term Investments	31.1	133,072	167,064
Inventories		1,596	1,682
Short Term Debtors	27, 31.1	56,031	52,756
Current Assets		201,026	223,578
Cash and Cash Equivalents	<i>CFS, 31.1</i>	0	(4,417)
Short Term Borrowing	31.1	(7,804)	(7,364)
Short Term Creditors	28, 31.1	(67,159)	(74,497)
Short Term Provisions	29	(6,178)	(6,626)
Grants Received in Advance - Revenue	14	(11,791)	(4,296)
Grants & Contributions Received in Advance - Capital	14	(50,420)	(50,687)
Current Liabilities		(143,352)	(147,887)
Long Term Provisions	29	(1,550)	(1,911)
Long Term Borrowing	31.1	(143,215)	(136,697)
Long Term Borrowing - Ex Avon Debt	33	(12,252)	(11,761)
Pensions Liabilities	35.1	(298,881)	(265,987)
Other Long Term Liabilities	31.1, 36.1	(22,479)	(22,105)
Long Term Liabilities		(478,377)	(438,461)
Net Assets		22,041	89,469
Usable Reserves	8.1	(101,344)	(120,203)
Unusable Reserves	9.1	79,303	30,734
Total Reserves		(22,041)	(89,469)

Group accounts

Group Cash Flow Statement

The Group Cash Flow Statement, and underlying notes, are not materially different from the Cash Flow Statement in the Council's single entity accounts.

	<i>Note</i>	2020/2021 £000	2021/2022 £000
Net surplus / (deficit) on the provision of services		15,537	16,761
Adjustments to the net surplus / (deficit) on the provision of services for non-cash movements		65,655	42,583
Adjustments for items included in the net surplus / (deficit) on provision of services that are investing or financing activities		(36,613)	(43,803)
Net cash flows from Operating Activities		44,579	15,541
Investing Activities			
Purchase of Property, Plant and equipment, Investment property and Intangible Assets		(39,468)	(38,820)
Proceeds from sale of Property, Plant and equipment, Investment property and Intangible Assets		2,521	3,433
		(36,947)	(35,387)
Purchase of short and long term investments		(1,807,000)	(571,500)
Proceeds from sale of short and long term investments		1,789,000	537,500
		(18,000)	(34,000)
Other payments for Investing Activities		(1,045)	(433)
Other receipts from Investing Activities		33,411	37,798
		32,366	37,365
Net cash flows from Investing Activities		(22,581)	(32,022)
Financing Activities			
Cash receipts from short and long term borrowing		2,012	298
Repayments of short and long term borrowing		(850)	(7,745)
		1,162	(7,447)
Finance lease repayments		(37)	(360)
Other net (payments) / receipts for Financing Activities		(15,391)	11,620
		(15,428)	11,260
Net cash flows from Financing Activities		(14,266)	3,813
Net increase / (decrease) in cash and cash equivalents		7,732	(12,668)
Cash and cash equivalents at the beginning of the reporting period		2,595	10,327
Cash and cash equivalents at the end of the reporting period comprising:		10,327	(2,341)
Cash held by the Council		10,327	(2,341)
		10,327	(2,341)

Group accounts

Notes to the Group accounts

Where there are no material changes to the statements the notes to the group accounts are as per the Council's single entity accounts. Where consolidation has resulted in material changes, additional notes are set out below.

Analysis of Income and Expenditure by Nature

	2020/21 £000	2021/22 £000
Expenditure		
Employee Benefits Expenses	78,484	90,819
Other Services Expenses	286,358	274,657
Depreciation, Amortisation and Impairment	24,015	19,884
Interest paid	7,420	8,403
Precepts and Levies	6,889	6,974
Payments to the Housing Capital Receipts Pool	0	0
(Gains) / losses on the disposal of non-current assets	4,832	16,150
Revenue Expenditure Financed by Capital Under Statute	4,575	5,517
	412,573	422,404
Income		
Fees, Charges and Other Service Income	(50,830)	(49,831)
Interest & Investment Income received	(918)	(733)
Income from Council Tax, Non-Domestic Rates	(134,184)	(151,546)
Government Grants & Contributions	(235,371)	(233,974)
Internal Recharges	(6,807)	(3,080)
	(428,110)	(439,164)
(Surplus) / Deficit on Provision of Services	(15,537)	(16,760)

Group Accounting policies

The group accounts summarise the Council's and its Group's transactions for the 2021/22 financial year. They have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, supported by International Financial Reporting Standards (IFRS).

Notes to the group accounts have been presented where the figures are materially different from those of the Council single entity accounts. Where there are no material differences, the notes to the Council's single entity accounts provide the required disclosures.

The accounting policies applied to the group accounts are consistent with those set out in the Council's single entity accounts, with additional policies specific to the group accounts set out below. Any statutory adjustments between accounting basis and funding basis included in the Council's accounting policies do not apply to the subsidiary companies.

Basis of Identification of the Group Boundary

Group accounts are prepared by aggregating the transactions and balances of the Council and all its material subsidiaries, associates and joint arrangements. In its preparation of these group accounts, the Council has considered its relationship with entities that fall into the following categories:

- Subsidiaries – where the Council exercises control and gains benefits or has exposures to risks arising from this control. These entities are included in the group.

Group accounts

- Joint Arrangements (Joint Operations and Joint Ventures) – where the Council exercises joint control with one or more organisations. Where these are material, they are included in the group.
- Associates – where the Council is an investor and has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee (stopping short of control or joint control.) It is presumed that holding 20% of the voting power of an investee (either directly or indirectly) brings significant influence but this presumption can be rebutted.
- No group relationship – where the body is not an entity in its own right or the Council has an insufficient interest in the entity to justify inclusion in the group financial statements. These entities are not included in the group.

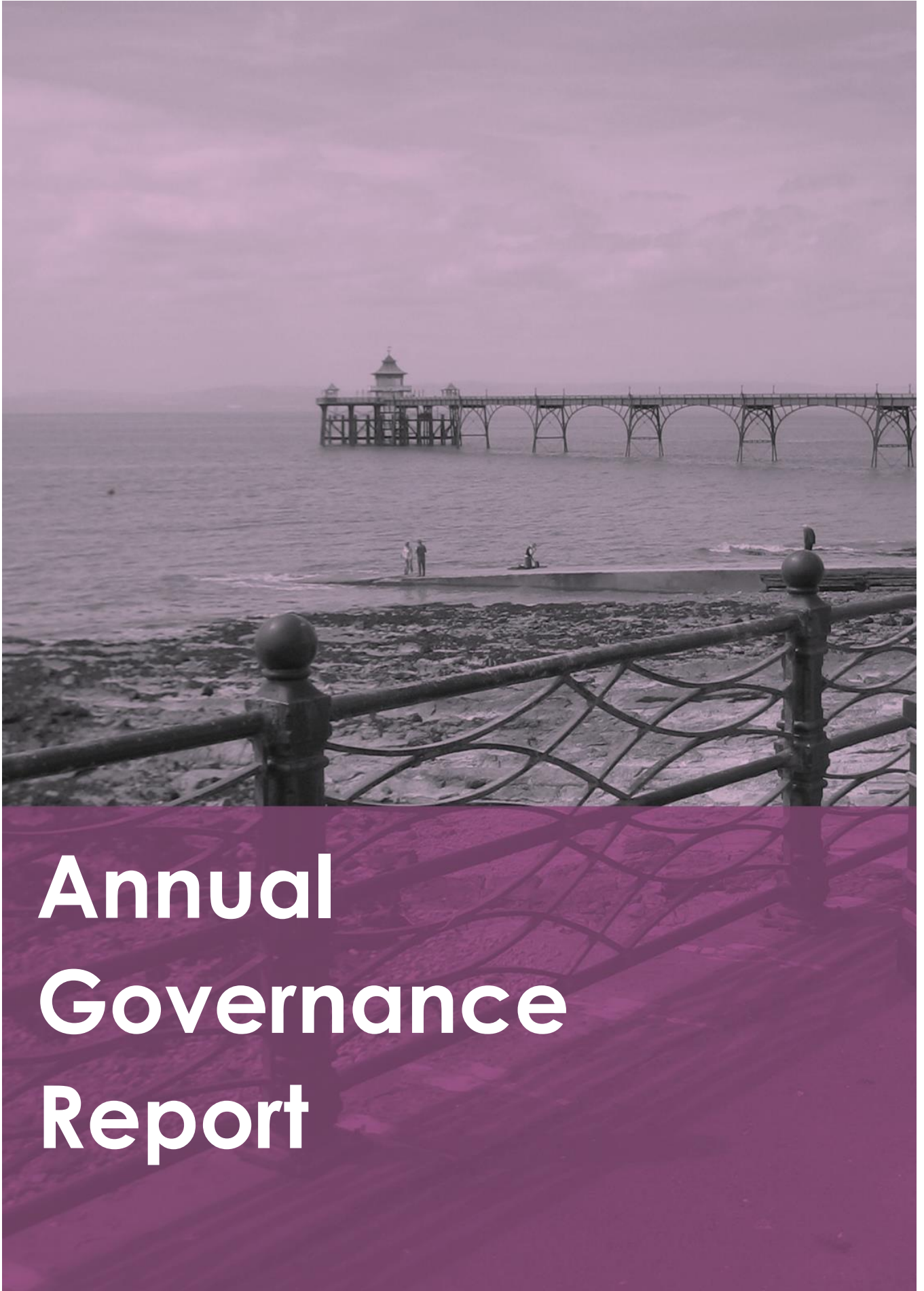
Basis of Consolidation – Group Accounts

The Group Accounts have been prepared using the group accounts requirements of the Code. Companies or other reporting entities that are under the ultimate control of the Council have been included in the Council's group accounts to the extent that they are material to users of the financial statements in relation to their ability to see the complete economic activities of the Council and its exposure to risk through interests in other entities and participation in their activities.

Subsidiaries have been consolidated on a line by line basis, subject to the elimination of intra-group transactions from the statements, in accordance with the Code. Accounting policies have been aligned where applicable.

The Council has one material subsidiary company, North Somerset Environment Company Ltd (NSEC). NSEC is a wholly owned subsidiary of the Council, incorporated on 26th October 2020, with a share capital of 1 ordinary share of £1 each. The principal activity of the company is the provision of waste and recycling services for the Council.

The Council does not currently have any associates or joint venture arrangements which are sufficiently material to warrant inclusion in the group accounts. Further detail regarding the Council's relationship with these entities is given in Note 23 of the Council's statement of accounts.



Annual Governance Report

Annual Governance Statement

1. Executive summary

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, which includes ensuring a sound system of internal control and effective arrangements for the management of risk.

The Council has adopted a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of our code is available from our website.

This Statement explains how North Somerset Council has complied with our Local Code of Corporate Governance and also meets the requirements of The Accounts and Audit (England) Regulations 2015, specifically Regulation 6 (1) in respect of the annual review of the effectiveness of its system of internal control and preparation and publication of an Annual Governance Statement.

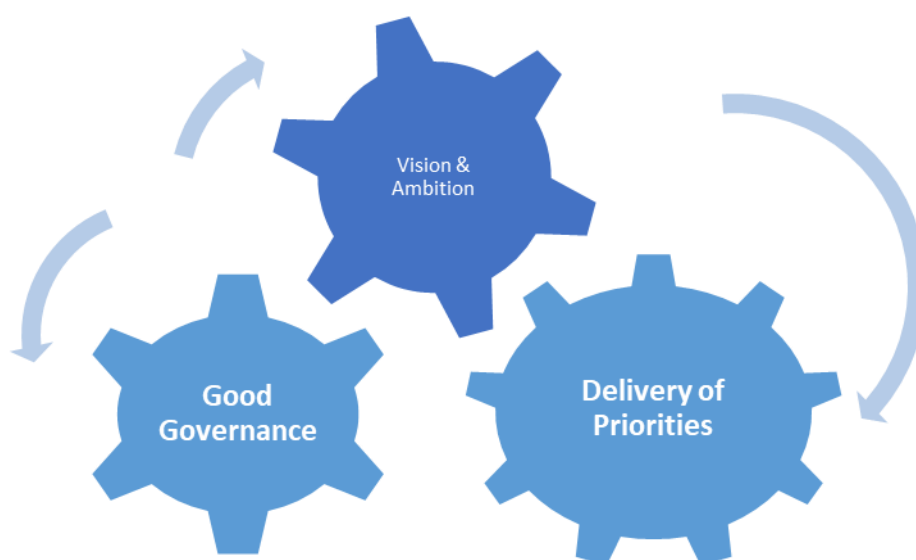
The governance framework described in this Statement has been in place at the Council for the year ended 31 March 2022, and up to the date of the approval of the statement of accounts.

As part of statutory requirements, the Head of Audit and Assurance is required to give an opinion on the internal control framework. His opinion, detailed in section 7 of this statement, is that, based on the planned work completed due to the circumstances of Covid-19, the Council's internal control framework and systems to manage risk are reasonable.

Significant issues identified through the preparation of this Statement, and the mitigating actions taken and planned to address them, are summarised in section 8.

2. The Purpose of the Governance Framework – Background & Overview for 2021/22

Good governance enables North Somerset Council to effectively achieve its intended outcomes, whilst acting in the public interest at all times and the following diagram illustrates how good governance is integral to supporting the delivery of the organisation's priorities.



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During the last year the governance framework was again tested by the ongoing Covid-19 pandemic and further changes to legislation by government. The Authority continued to respond accordingly to ensure it could continue function and make key decisions.

Through 2020/21 the Council quickly adapted to remote and virtual working, and this continued into 2021/22 with a slow and steady increase in the number of physical meetings. There were therefore no significant changes required to the processes underpinning key decision making, policy development and the Corporate Governance of the Authority.

The Constitution, which sets out how the Authority operates, is kept under constant review and updated as necessary through the year. It clearly defines the roles of councillors and officers and this clarity contributes to effective working relationships.

As part of this ongoing review, the Audit Committee members and Monitoring Officer have held several workshops to review parts of the Constitution. All directorates were asked to input into this review by the workshops and proposed changes were then circulated to all councillors for input.

The proposed changes included:

- a) Amended terms of reference for the Audit Committee
- b) Changes to the size of the Planning and Regulatory Committee and public participation arrangements
- c) Changes to parts of the Financial Regulations and Contract Standing Orders

The next stage in this process will be for the Audit Committee to formally review the proposed changes and then recommend them to Council.

A number of restructures were completed in the year with notable appointments including to Assistant Director roles in both Adult Social Services and Children's Services. This followed the separation of the previously combined People and Communities Directorate, as well as establishment of Public Health and Regulatory Services as a new Directorate. A further key staffing appointment was also made in May 2021 with the employment of a new permanent Director of Corporate Services (& s151 Officer). This followed an extended period of which there was as Interim Director of Finance and Property in place.

During 2021/22, the External Auditors commenced their review of VFM arrangements. A draft version of their report has been received and will be discussed between the Council's Section 151 Officer and Grant Thornton before it is agreed and finalised.

The Council's Local Code of Corporate Governance aims to ensure that in conducting its business the Council:

- operates in a lawful, open, inclusive and honest manner
- makes sure public money is safeguarded, properly accounted for and spent wisely
- has effective arrangements in place to manage and control risk
- secures continuous improvements in the way it operates.

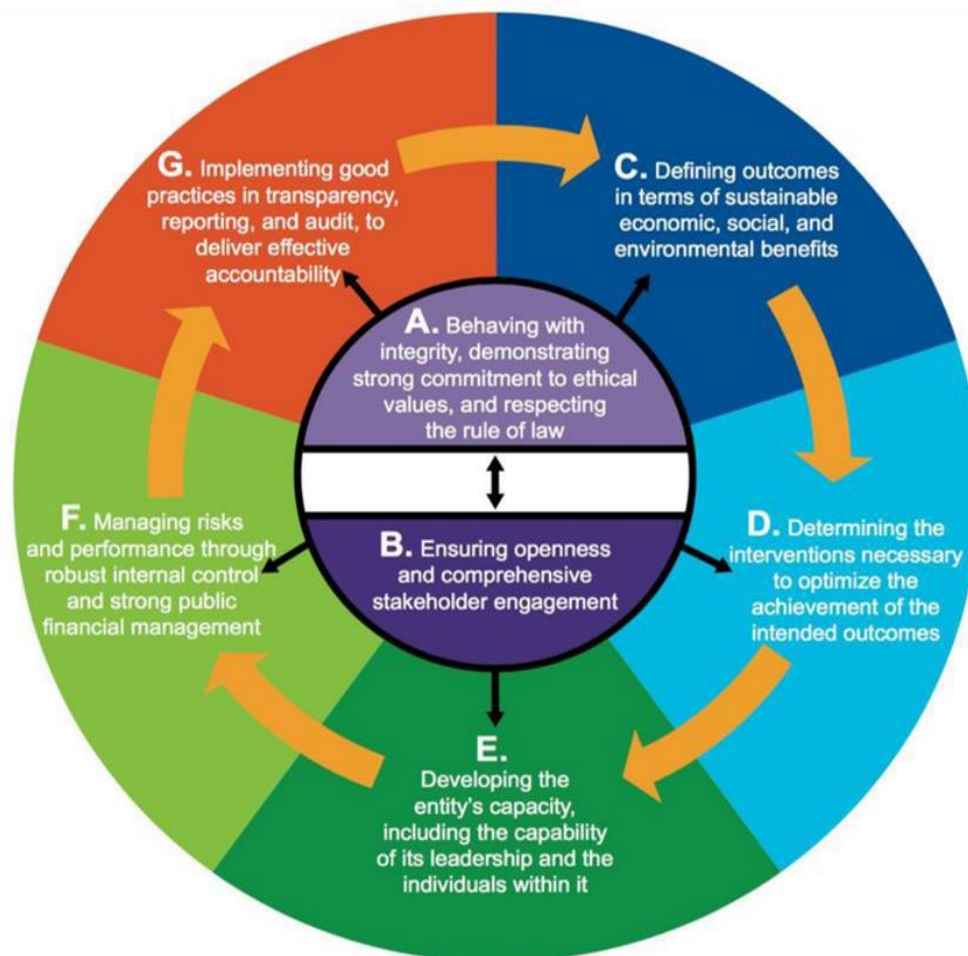
The Code comprises the systems and processes, culture and values and structures by which the Council is directed and controlled. The Code is the sum total of all of these things, and it includes those activities required to enable the Council to engage with, account to and lead the communities it serves. The Code enables the Council to set its strategic objectives and to manage the achievement of the objectives whilst ensuring delivery of appropriate, cost-effective services.

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The system of internal control is a significant part of that Code. It is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised and to manage them efficiently, effectively, and economically.

The CIPFA/SOLACE framework envisages that the Code will be organised to ensure a continuous process of good governance based on seven principles.

The governance framework and an attendant Code has continued to be in place at North Somerset Council for the year ended 31 March 2022 and will be up to the date of approval of the statement of accounts.



Source: CIPFA/SOLACE

3. Key Elements of our Code of Corporate Governance – Our Framework

The council's Constitution is kept under constant review and updated as necessary through the year, and sets out how the Council operates. North Somerset Council has a history of strong democracy, and robust member involvement in decision-making. The key elements of the governance arrangements at the Council during the 2021/22 financial year were:

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Council, Executive and Leader ↓	<ul style="list-style-type: none"> Provides leadership Develops and sets policy 	Council Leadership Team ↓	<ul style="list-style-type: none"> The Chief Executive as Head of Paid Service leads the Council's Leadership Team. The Section 151 Officer is responsible for safeguarding the Council's financial position. The Monitoring Officer is responsible for ensuring legality and promoting high standards of public conduct.
Decision Making ↓	<ul style="list-style-type: none"> All decisions are recorded on Council Website Meetings are held in public as appropriate and key ones are webcast including virtual meetings during Covid-19 	Performance and Risk Management ↓	<ul style="list-style-type: none"> Processes are in place for managing and reporting performance as well as identifying strategic and operational risks. Council performance and strategic risks are regularly reviewed by Council Leadership Team and reported to Executive and Audit Committee.
Scrutiny ↓	<ul style="list-style-type: none"> Scrutiny committees provide wider member input into the development of key policies, and review and challenge decisions. 	External and Internal Audit	<ul style="list-style-type: none"> External audit provides an annual opinion on the Council's accounts and also provides commentary on the Council's value for money arrangements in their Annual Audit letter. Internal audit provides regular assurance on the governance, risk and internal control arrangements
Assurance	<ul style="list-style-type: none"> Provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards Independent audit is a critical source 		

How we have fulfilled the principles of good governance

Review of the Council's Code of Governance

The Code comprises the systems and processes, culture and values and structures by which the Council is directed and controlled. The Code is the sum total of all of these things, and it includes those activities required to enable the Council to engage with, account to and lead the communities it serves. The Code enables the Council to set its strategic objectives and to manage the achievement of the objectives whilst ensuring delivery of appropriate, cost-effective services.

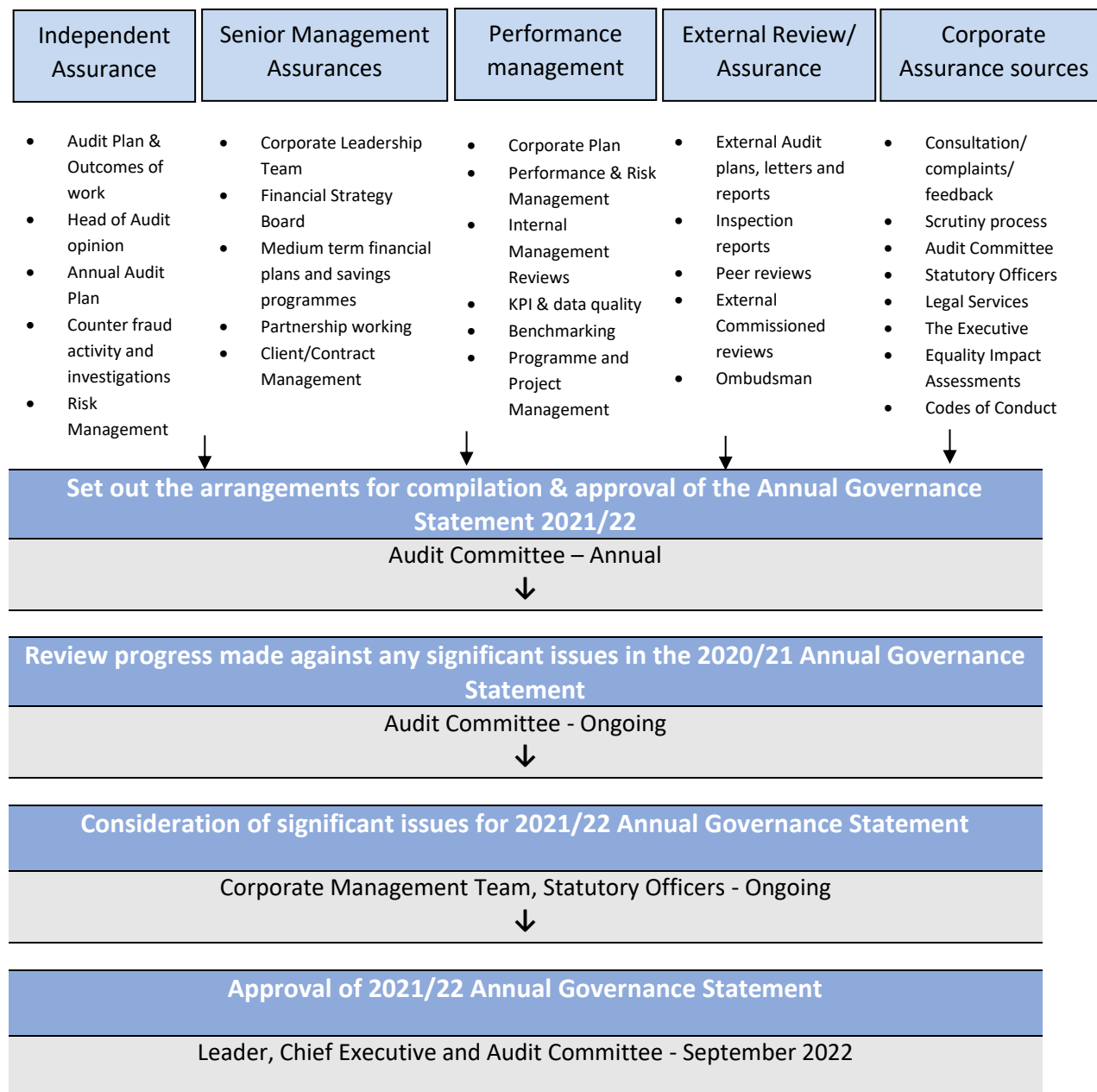
In preparing this Annual Governance Statement the Council has:

- reviewed the Council's existing governance arrangements against the revised CIPFA / SOLACE 'Delivering Good Governance in Local Government framework - 2016 Edition' good practice guidance, and
- assessed the effectiveness of the Council's Local Code of Corporate Governance.

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The remainder of this document sets out some key aspects of how the Council has complied with the principles set out in the Framework during 2021/22. However, it is not intended to be exhaustive.

4. Methodology for Preparing the Annual Governance Statement 2021/22



5. The Governance Framework

The Council is committed to meeting best practice standards for good governance. The Council has expressed commitment to CIPFA/SOLACE’s core principles of Corporate Governance, as outlined in the guidance document ‘Delivering Good Governance in Local Government: Framework’. The principles and a brief outline of our organisational context regarding these are described below:

The key elements of the Council’s governance framework are described below and a range of supporting documents are available on the Council’s website <http://www.n-somerset.gov.uk/>

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5.1. Principle 1 - Defining outcomes in terms of sustainable economic, social and environmental benefits & determining the interventions necessary to optimize the achievement of the intended outcomes

5.1.1. Identifying and communicating the council's vision of its purpose and intended outcomes for the public and service users

The Corporate Plan was substantially updated and approved by Council during 2019/2020 reflecting the ambition of the newly elected members. It sets out the Council's aims and priorities with three key outcomes for the Community – to be a thriving and sustainable place, to be a Council which empowers and cares about people, and to be an open and enabling organisation. The Council plan was updated and approved by Council in February 2021, to reflect the impact of Covid on the Council's priorities. Progress in delivering these priorities for local people is reviewed as part of the ongoing democratic processes through the Executive reporting structures and scrutiny committees, as well as through the Council's normal communication channels ([Corporate Plan](#)).

5.1.2. Reviewing the councils' vision and its implications for the council's governance arrangements.

The Council's vision as detailed in the updated Corporate Plan is to be 'An open, fairer, greener North Somerset'. The Corporate Plan underpins the work of the council and the priorities set out within the document play an important role in directing the resources including staff and money and thereby the governance arrangements. The approval of the refreshed Council plan in February 2021 aligned with the approval of the Medium-Term Financial Plan.

5.1.3. Measuring the quality of services for users, ensuring they are delivered in accordance with the council's objectives and that they represent best use of resources.

A performance management framework describes how the council monitors and manages its performance to ensure the council delivers against its priorities for local people. The council has set clear targets and reports performance against targets. For high level corporate performance indicators, performance is reported quarterly to the Executive and to scrutiny committees. Directorates, services, teams, projects and individuals similarly work to and report performance against their own targets. These are designed to ensure quality, value for money services.

An example is provided below to show how the performance management framework (PMF) works in practice.

During the year, Ofsted Inspectors looked at the local authority's arrangements for children in need, including those who are subject to a child protection plan. Their report was issued in January 2022 and whilst including elements of praise, described how the Council's desire to improve since its previous inspection had yet to be embedded. A report to the Children and Young People's Services Policy and Scrutiny Panel was subsequently presented in March 2022. Here an up-to-date overview of the strengths, challenges and identified areas for development within the Family Support & Safeguarding Service was given, supported by a strategic plan based around Ofsted findings. This plan has been incorporated into the Council's PMF to enable oversight and scrutiny of plans and progress through a range of stakeholders and decision makers.

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5.2. Principle 2 - Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

5.2.1. Defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication.

The Constitution explains how the Council operates, how it makes decisions and the procedures followed to ensure the Council is efficient, transparent and accountable.

The Constitution includes descriptions of how the Council, Executive, Scrutiny and other groups operate and how they work with officers. It describes the rules for how meetings work and how decisions are made. The Constitution is reviewed annually and its outcomes reported back to Council.

5.2.2. Incorporating good governance arrangements in respect of partnerships and other group working and reflecting these in the council's overall governance arrangements.

The Council works in partnership with a wide range of organisations and groups. Details relating to these partnerships are included throughout the Council's website although the main partners are as follows:

- North Somerset Partnership is the overarching partnership for North Somerset, bringing together public, private and voluntary and community sector organisations. The Partnership continues to work hard on new plans to drive further integration and joint working across the different agencies to deliver sustainable benefits for the whole community.
- A Community Safety Board has been established with partners to provide strong governance around community safety across North Somerset.
- There are two safeguarding boards, which include key partners; North Somerset Safeguarding Children Partnership and North Somerset Safeguarding Adults Board work, which are focused on reducing the risk of abuse and neglect for local people. Both the Children's and Adults Boards are governed by statute.
- Schools are important partners and at high level the Council works with local schools including Academy Schools and other providers through the Strategic Schools Forum (SSF) to support children to achieve their full potential.
- The Council works with its three local Unitary Authorities, the West of England Combined Authority and business partners in the West of England Local Enterprise Partnership. The partnership supports economic growth and works to attract new jobs and investment to the area. The partnership has long established local governance arrangements which were enhanced in response to agreeing the City Region Deal. Whilst the Council is not a constituent member of the West of England Mayoral Combined Authority, the Council continues to engage and work closely with partners to ensure North Somerset can maximise opportunities to work across the sub-region on infrastructure, skills, and employment wherever possible.
- The Council works closely with health partners across the health footprint of Bristol, North Somerset and South Gloucestershire (BNSSG), as a member of both the BNSSG Executive and Board.
- The Council has set up North Somerset Together to improve joint working with Town and Parish Councils, community groups and the voluntary sector in response to Covid.

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- The Council has a Strategic Partnership with Agilisys since 2010 (Agilisys and Liberata) and this partnership delivers much of the Council's support services such as ICT and the revenue and benefits service. Through the partnership the Council has increasingly used private sector expertise and innovation in its day-to-day business to drive value for money and deliver better services. Governance is through a Strategic Partnership Board which has Member representation and an Operations Board.
- The Council has also set up its own wholly Council-owned recycling and refuse collection service named NSEC (North Somerset Environment Company) and this has been in operation since April 2021. Governance arrangements have evolved since inception of the company, with a Memorandum of Understanding which describes the relationship between NSEC and the Council as its parent company. The Council has nominated The Executive Member for Corporate Services as its Shareholder. Shareholder boards are held at least quarterly.

5.2.3. Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and officers.

The Council's values are defined in the Corporate Plan. They influence the way the Council goes about its business through its strategies, plans and behaviours. The values form the Council's leadership standards. These are promoted to all officers and form part of the induction process.

The Council has previously adopted a Code of Conduct in response to the Localism Act and also established a Standards Sub Committee whose remit is to consider any allegations of breaches of the Code. Members are required to disclose any interests, and these are posted on the Council's website. Officers are also required to comply with a Code of Conduct and Customer Care Charter and Standards. On an annual basis officers are required to register any interests.

The Constitution includes a Members' and Officers' Codes of Conduct, and a member-officer protocol which defines how officers & members work together.

5.3. Principle 3 - Managing risks and performance through robust internal control and strong public financial management & implementing good practices in transparency, reporting and audit to deliver accountability

5.3.1. Reviewing and updating standing orders, financial regulations, a scheme of delegation and supporting procedure notes / manuals, which clearly define how decisions are taken and the processes and controls to manage risks.

The Council periodically updates its Constitution, Standing Orders and Financial Regulations. These incorporate the scheme of delegation and describe how decisions are taken.

The Medium-Term Financial Plan details how the Council intends to spend its financial resources over the short and medium term. The Procurement Strategy, rules and procedures have been recently refreshed, and Contract Management arrangements reviewed including an increase in training provided to officers. Whilst these actions have increased the robustness of control in this area, this will require continued effort in order to fully embed the principles of good contract management throughout the council. All contract opportunities are advertised on the website and through government recommended portals.

The Council's Risk Management Strategy describes the Council's approach to the management of risk. The effectiveness of the arrangements is effectively overseen by the Corporate Leadership Team through the decision-making process supported by the Audit Committee overseeing the framework. All formal decisions are accompanied by an assessment of the risks involved and the

Annual Governance Statement

assessments are documented in reports and decision papers. Risk register updates are presented to the Audit Committee for each quarter by the Head of Business Insight, Policy and Partnerships.

5.3.2. Ensuring the authority's financial management arrangements conform with the governance requirements of the CIPFA statement on the role of the chief financial officer in local government

A new Director for Corporate Services & s151 Officer commenced employment in May 2021, following a period of which there was an Interim Director of Finance and Property in place. The s151 Officer is a member of the Corporate Leadership Team. They ensure all decisions are in accordance with the medium-term financial strategy and that public money is properly safeguarded. They are also required to ensure that the Council's finance function is adequately resourced, and officers have the necessary experience and qualifications to provide an effective financial management service.

As part of good governance, the Finance service has carried out an initial assessment against the CIPFA Financial Management Code 2019. A key goal of the Code is to improve the financial resilience of organisations by embedding enhanced standards of financial management. Organisational resilience is particularly important in light of the Covid-19 pandemic and the challenges this has brought. This is an ongoing process, and during 2022/23 any necessary actions or updates will be monitored through the Audit Committee

The Head of Finance, and Finance Business Partners support the S151 Officer and have regular Finance Management Team meetings. They also have a monthly finance review with the Council's Executive Member for Corporate Services. These meetings cover all financial matters, provide a forum for challenge and formulation of financial strategy and decisions. The group considers, for example, management of emerging risks, short and long-term budget plans, and the prioritisation of revenue and capital expenditure as well as the use of reserves.

5.3.3. Carrying out the core functions of an audit committee, as identified in CIPFA's audit committee – practical guidance for local authorities.

The Audit Committee comprises five elected Members. The Committee's responsibilities are described in its terms of reference which form part of the Council's constitution. The terms of reference have recently been reviewed and updated. The Committee meets formally and informally during the year and in addition received briefings around specific topics relevant to its terms of reference. The Committee reports annually to Council to detail the work undertaken and demonstrate that it is discharging its responsibilities effectively. The Committee chair has regular meetings with the S151.

5.3.4. Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful.

The Chief Executive, Monitoring Officer, S151 Officer and Head of Audit and Assurance (Audit West) meet as a Statutory Officers Group on a periodic basis to consider any significant statutory or legislative issues impacting upon delivery of the Council's priorities.

The Monitoring Officer and s151 officer approve any reports prior to their consideration by the Executive and Council. In this way the Council ensures it complies with the relevant legislation and guidance and decisions do not place the Council at unacceptable risk.

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5.3.5. Whistle blowing and receiving and investigating complaints from the public.

The Council's policies and procedures promote a culture of integrity and high standards. The Constitution includes Codes of Conduct for staff and members, and the Anti-Fraud and Corruption Policy Statement. The Council also maintains a Counter Fraud Strategy and an active programme of work aims to prevent and detect any fraud which might affect the Council. The strategy was refreshed during the year, as was the associated Anti-Bribery Policy, Whistle Blowing Policy, and Anti-Money Laundering Policy and Guidance.

The Internal Audit Service and Human Resources receive and consider anonymous referrals from officers or the public of suspected wrongdoing. They work with other council's services or partner organisations to investigate any allegations of improper behaviour and take action as necessary.

The Council's complaints process is advertised on its website and the public is able to make compliments, suggestions or complaints online, in person or by phone. The process describes what a member of the public can do if they are unhappy with the way their complaint has been handled.

5.4. Principle 4 - Developing the entity's capacity including the capability of its leadership and the individuals within it

5.4.1. Identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training.

Every officer has an annual appraisal where their performance is reviewed and development needs identified. The appraisal is accompanied by a training and development plan and there is a suite of mandatory training for all staff, as well as additional mandatory training for managers. A range of mechanisms are in place to meet officer's individual training and development needs including a suite of e-learning activities.

The Council puts on a programme of training and development for Members which is accessible at any time whilst newly elected Members receive more intensive support. This includes a full induction process following local elections every four years as well as service and committee specific briefings on individual topics and policy initiatives.

5.5. Principle 5 - Ensuring openness and comprehensive stakeholder engagement

5.5.1. Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation.

The Council has a Corporate Plan priority to 'engage with and empower our communities'. To help contribute to this priority, a commitment has been made to develop a Consultation and Research Strategy and action plan. The strategy has a vision to: Deliver high quality, inclusive consultation and research activity that empowers our residents and stakeholders to get involved.

The key principles for consultation and research activity across North Somerset Council are that:

- Consultation and research activity is essential to ensure we are an open and enabling council.
- Consultation and research activity is fundamental to ensuring that we make informed decisions which ensure efficient use of resources and ultimately improved service delivery.
- Consultation and research activity will always be carried out to a high standard and well-coordinated.

Annual Governance Statement

- Consultation and research activity will be inclusive, ensuring we meet our equality objectives.

The action plan includes a commitment that all consultations are usually advertised on the website through eConsult, with posters included in our libraries listing active consultations, and that we will continue to grow our Citizen's Panel. The strategy also links in with our Empowering Communities Strategy to ensure that groups with particular needs or interests are empowered to engage with us.

Results from consultation exercises and resident's surveys have been used to inform the Council's future direction and priorities, and North Somerset Life has been an important mechanism for communication, both in digital and printed format. It is the vital role of ward Members however in listening to the views of the community which provides invaluable levels of feedback and engagement to help assist the Council shape its services appropriately.

The Council has a set of rules that all Council departments and services work to, rather than a specific policy on consultation as indicated in the Local Code of Governance.

During the year, Bristol Airport was given the go-ahead to expand after a lengthy planning inquiry. The Council originally rejected the airport's plans to expand, mainly on environmental grounds. However, the airport appealed and the decision was overturned by the government's planning inspectorate. This remains a matter of extreme public interest and campaigners are contesting the decision through a Planning Statutory Review. A hearing will subsequently take place in the High Court in 2022/23.

6. Review of Effectiveness

6.1. Processes for maintenance and review of the effectiveness of the governance framework

The process for the Annual Governance Statement is a continuous process and Senior officers and Members consider emerging issues during the course of the year. This means that controls issues and risks can be addressed more quickly.

Publication of this Annual Governance Statement is the culmination of this work. The Council's Chief Executive signs the Statement as a summary of the effectiveness of the Council's governance framework.

6.2. Other contributory review / assurance mechanisms

In evaluating the effectiveness of the Council's governance, information is available from a wide range of sources. These include the Internal Audit Service, the Information Governance Group, the external auditors, inspectorates such as the Care Quality Commission and directorates themselves.

The Head of Audit & Assurance (Audit West), in conjunction with Statutory Officers, reviews the effectiveness of the governance framework during the year and the draft Annual Governance Statement. The Statement is signed by the Chief Executive and Leader of Council, and formally reviewed by the Audit Committee as part of the Financial Statements.

Key risks have been kept under review during the year and will continue to form an ongoing focus for successful delivery of the Council's plans. The year has however obviously continued to be dominated by Covid-19 and significant focus was therefore on managing risk in relation to –

- Public Health
- Local Economy
- Financial Resilience

Annual Governance Statement

- Organisational Resilience
- Local Democracy
- Safeguarding the most Vulnerable

This list is not exhaustive due to the scale of the issues created by the Covid-19 pandemic.

7. Head of Audit and Assurance Opinion

As part of statutory requirements, the Chief Audit Executive is required to give an opinion on the internal control framework. In forming this view, I have considered the work of the Audit & Assurance function as well as other assurances I can rely on and consideration of the wider governance framework and performance of the council.

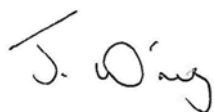
As highlighted during reports to the Audit Committee since the beginning of the pandemic, we reported the state of the internal control framework as satisfactory based on our audit opinions. However, during this period, our opinions have been tempered by remote working as we could not observe normal practices due to Covid-19 and government advice to work from home.

This continued to be the case throughout most of 2021-22 and coupled with unplanned work relating to Covid-19 Grant Funding, brought into consideration whether a limited or qualified opinion should be issued as result of changes to the plan. The Institute of Internal Auditors guidance in this respect is that if the Audit Committee has agreed to any amendments to the plan, then there is no need for a limited opinion; the opinion will reflect the work detailed as agreed.

There were small adjustments to the 2021-22 plan and it is therefore my opinion that, based on the work completed, the council's internal control framework and systems to manage risk are reasonable.

The ongoing financial challenge, especially within a year dominated by world events including Covid-19, the conflict in Ukraine and the cost-of-living crisis, also places further pressure locally on services to respond and manage risk in a proportionate way. A robust Internal Audit service is a vital component of the Council's governance systems and provides the third and final line of defence in relation to the internal control framework.

Signed:



Jeff Wring

Head of Audit and Assurance

23rd April 2022

Annual Governance Statement

8. Significant Issues for 2020/21

Issue in 2020/21	Commentary & Mitigating actions for 2021/22	Update on Mitigating actions for 2021/22
<p>Coronavirus Pandemic (Covid-19)</p> <p>The impacts of Covid-19 both internationally, nationally and regionally have been unprecedented in both Health and Economic terms. Central Government has put in place emergency legislation which has led to a wide range of measures to manage risks, protect public health and support the economy. These measures have often changed at short notice as the pandemic impacts altered through the year and these have directly impacted on local authorities.</p> <p>At a local authority level this has affected every area of the Council as front facing and support services have had to adapt to the changing position. In risk and governance terms the most significant impacts are in the following areas –</p> <p>Public Health – Ensuring that the vast range of health mitigations and measures are implemented and communicated to the public so that they are clear, coherent and supportive;</p> <p>Local Economy – Ensuring that local businesses can access the extensive level of grant support which was directed to local authorities to administer and manage;</p>	<p>As detailed the Executive and Senior Management have overseen an extensive set of actions over the key risk areas to respond to the Pandemic.</p> <p>The focus was on three key pillars –</p> <ul style="list-style-type: none"> • Response • Recovery • Renewal <p>Actions throughout the pandemic were detailed and taken through the Council’s governance arrangements. The actions focused on response, recovery and renewal, whilst continuing to support ongoing delivery of the Council’s Corporate Plan, which was refreshed to reflect the impact of Covid.</p> <p>The budget report in February 2021 provided a further summary of the Council’s position and how future investment underpins Council’s priorities in relation to recovery and renewal and the out-turn report in June 2021 provides details which support the Council’s ongoing sustainability.</p> <p>It is recognised that the pandemic has already had a significant impact on North Somerset and the Council will continue to review the impact and adjust its priorities to respond to these challenges as</p>	<p>Throughout the pandemic, the Council has reacted extensively with a focus on themes of response, recovery, and renewal.</p> <p>The Council’s Corporate Plan 2020-2024 reflects the (then) present and future challenges presented by Covid and details how challenges can be overcome. In turn, Directorate Statements were published in April 2022 and these describe how each Directorate will help achieve the aims and priorities as set out in the Corporate Plan.</p> <p>Covid-related impacts, risk and budgetary forecasts were continually assessed and incorporated into the council’s monthly monitoring process throughout the year. A series of reports were considered by the Executive and included information on additional Covid funding/ government intervention received by the Council.</p> <p>The outturn position for 2021-22 was an underspend of £691,000, with the Covid impacts being fully funded through government grant. The Council has set aside the balance of the Covid grant to meet future on-going impacts of Covid, if needed.</p>

Annual Governance Statement

Issue in 2020/21	Commentary & Mitigating actions for 2021/22	Update on Mitigating actions for 2021/22
<p>Financial Resilience – Ensuring that the organisation is both clear on the financial impacts of loss of income or increase in costs and plan for how these can be managed in year and for the medium term;</p> <p>Organisational Resilience – Ensuring that business continuity can be maintained in a fast-changing position as services were temporarily closed, altered or delivered differently and manage organisational effectiveness whilst working at home;</p> <p>Democracy – Ensuring that local decision making at a formal level can continue effectively at all levels whilst working at home and continuing to support public access;</p> <p>Safeguarding – Ensure that the Council can support those who are most vulnerable and provide appropriate measures to protect those most at risk.</p> <p>The Council and Executive formally considered its response to the pandemic at its June meeting setting out its current position and the range of actions it was taking to support its communities</p>	<p>the situation evolves and the full extent of the long-term implications become clear.</p> <p>The mitigations and updates listed above are relatable to this risk and are not repeated to avoid duplication.</p>	

Annual Governance Statement

9. Significant Issues for 2021/22

Issue in 2021/22	Commentary & Mitigating actions for 2022/23
<p>Coronavirus Pandemic (Covid-19) - Recovery</p> <p>The impacts of Covid-19 continue to be significant and unprecedented in both Health and Economic terms.</p> <p>On a regional level this has significantly impacted on the public sector, including North Somerset Council.</p> <p>As per the previous year (see section 8), in risk and governance terms the most significant issues remain in the areas of public health, local economy, financial and organisational resilience, democracy, and safeguarding.</p> <p>Whilst health and safeguarding risks appear to have reduced, the full effect on the economy is now being realised. North Somerset Council achieved an excellent outcome by presenting a forecasted minor annual budget underspend at the end of 2021/22, but it still has a vital role to play in supporting its residents and communities as we emerge further out of the pandemic in 2022/23. Further careful management of budgets will therefore be required to support this, including identifying specific areas of recovery and investment to respond to the impacts of the pandemic which will continue over the coming months.</p> <p>Capital Governance</p> <p>During 2021/ 22, the Council’s Audit Committee expressed interest in the governance arrangements of the Council’s capital projects and a desire to enable greater transparency and oversight by officers and members.</p> <p>The Director of Corporate Services/ s151 Officer responded positively to this request and undertook their own review of Capital Governance within the Council. Whilst no significant governance failures had occurred, the review</p>	<p>Throughout the pandemic, the Council has reacted extensively with a focus on themes of response, recovery, and renewal.</p> <p>The Council’s Corporate Plan 2020-2024 reflects the (then) present and future challenges presented by Covid and details how challenges can be overcome. In turn, Directorate Statements were published in April 2022 and these describe how each Directorate will help achieve the aims and priorities as set out in the Corporate Plan.</p> <p>Covid-related impacts, risk and budgetary forecasts continue to be monitored by directorates and included in financial monitoring, with £4.5m of reserve funding carried forward in to 2022/23 for allocation against pressures arising.</p> <p>Given the macro-economic position and inflationary pressures, the Council may be required to take further action to deliver a balanced budget, which could involve decisions to reduce areas of non-essential spending, and potentially make changes to service provision. Robust monitoring processes are in place and processes are under review to ensure transparency and consistency of decision making throughout 2022/23.</p> <p>A new Governance framework has been developed and a Capital Programme, Planning and Delivery Board (CPPDB) was established in January 2022. The purpose of this board is to ensure quality, consistency of approach and co-ordination across the Capital Programme as part of the Council’s Capital Strategy. It will oversee the operational, risk and financial performance of capital projects, and will also bring programme</p>

Annual Governance Statement

Issue in 2021/22	Commentary & Mitigating actions for 2022/23
<p>identified that the governance model in operation could be enhanced, with revised arrangements to be put in place to achieve an overall key objective of providing a clear, consistent and proportionate reporting mechanism.</p>	<p>planning, monitoring and delivery in to one place. The CPPDB will also monitor actions from the Capital Strategy Action Plan.</p> <p>Progress in this area will be independently evaluated by the Internal Audit Service and, in addition, the Director of Corporate Services/ s151 Officer is separately providing regular updates to the Council’s Audit Committee and PCOM Scrutiny Committee chairs.</p>

Annual Governance Statement

Conclusion - Certification

As laid out in the statement, North Somerset Council's governance arrangements have been reviewed and considered in line with the CIPFA/SOLACE code of practice. To the best of our knowledge the governance arrangements as defined have been effectively operating during the year 2021/22. Significant governance issues identified through the Annual Governance Statement Review process are recorded in Sections 8 and 9.

We propose to take actions to address the issues raised with the objective of enhancing our governance arrangements. The issues and related actions will be monitored as part of the annual governance review process.

Chief Executive and Leader of the Council's Declaration

We have been advised on the results of the review of the effectiveness of the governance framework and certify the Annual Governance statement on behalf of the organisation.

Add signature

Steve Bridger

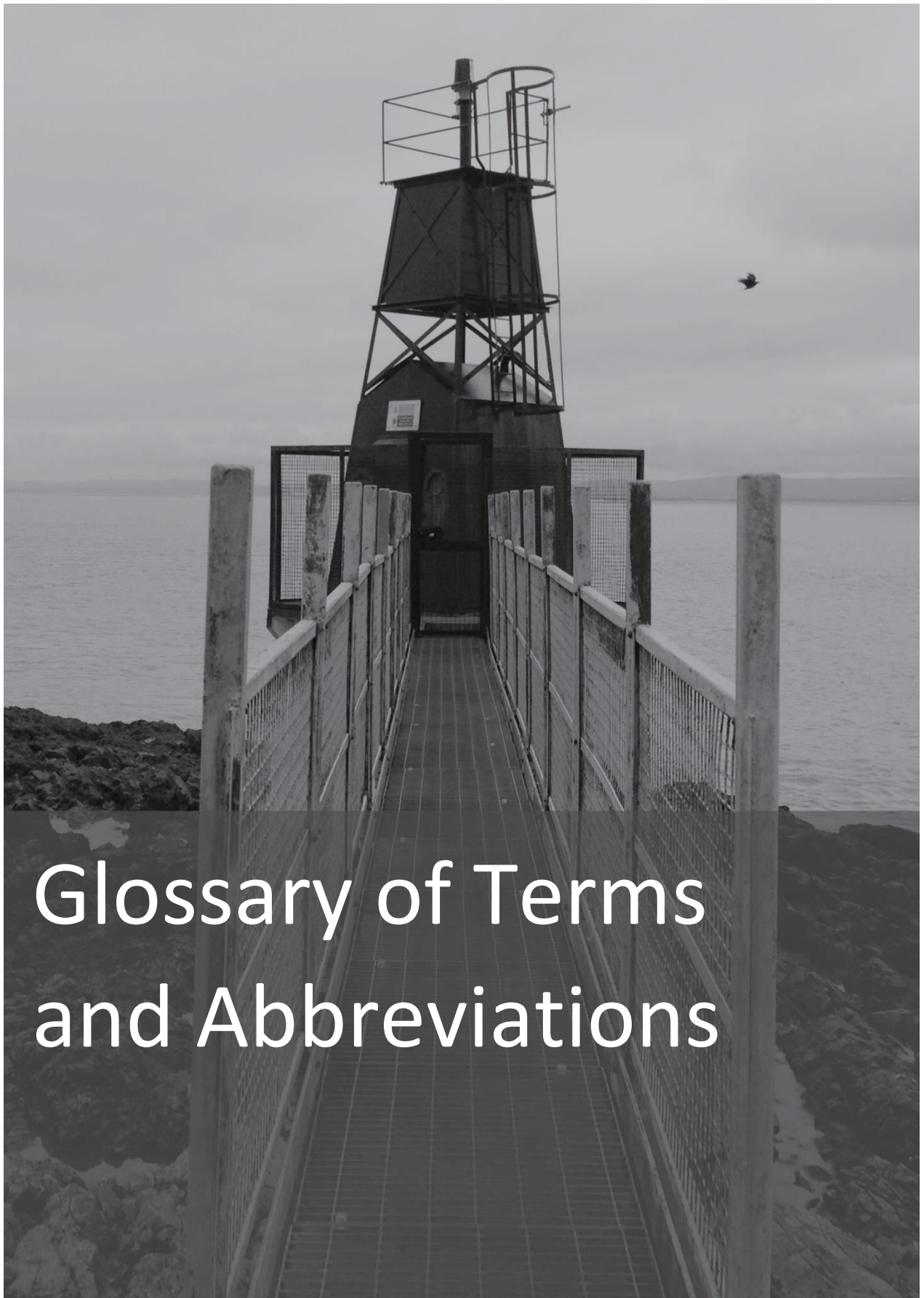
Leader of the Council

Add signature

Jo Walker

Chief Executive Officer

XX September 2022



Glossary of Terms and Abbreviations

Glossary of Terms and Abbreviations

A

Accounting Period

The period covered by the accounts, normally 12 months commencing on 1 April. The end of the accounting period is the Balance Sheet date.

Accounting Statements

The Council's Core Financial Statements and Supplementary Financial Statements.

Accruals

Sums included in the final accounts to cover income or expenditure attributable to the accounting period but for which no payment has yet been made or received at the Balance Sheet date.

Actuarial Gains and Losses (Pension Schemes)

Changes in the net pensions liability that arise because events have not matched assumptions at the last actuarial valuation or because actuarial assumptions have changed.

Amortisation

A term used to refer to the charging of the value of a transaction or asset (usually related to intangible assets or deferred charges) to the Income and Expenditure Account over a period of time, reflecting the value to the authority; similar to the depreciation charge for Non-Current Assets.

Appointed Auditors

The appointment of external auditors to local authorities is undertaken by Public Sector Audit Appointments Limited (PSAA), an independent company limited by guarantee and incorporated by the Local Government Association. Grant Thornton UK LLP have been appointed as the Council's external auditors.

Approved Institutions

Funds that are not immediately required may be invested but only with third parties meeting the credit rating criteria approved annually as part of the Council's Treasury Management Policies and Practices.

Asset

An asset is a resource controlled by the Council as a result of past events, and from which future economic benefits are expected to flow to the Council. An item having value in monetary terms. See also Current Assets, Non-Current Assets and Financial Asset.

Audit of Accounts

An independent examination of the Council's financial affairs.

B

Billing Authority

A local authority responsible for billing and collecting Council Tax and National Non-Domestic Rates.

Budget

The forecast of net revenue and capital expenditure over an accounting period.

Glossary of Terms and Abbreviations

C

Capital Expenditure

Expenditure for the acquisition, provision or improvement of non-current assets, which will be of long-term value to the Council, providing services beyond the current accounting period.

Capital Financing

The raising of money to pay for capital expenditure through borrowing, usable capital receipts, capital grants and contributions or use of reserves.

Capital Financing Requirement (CFR)

The underlying need for the Council to borrow to fund capital investment which has not been funded immediately from resources such as grants, capital receipts and direct funding from revenue.

Capital Programme

The capital schemes the Council intends to carry out over a specified time period.

Capital Receipts

Money received from the disposal of non-current assets or the repayment of grants and loans, which is available for financing future capital expenditure.

Collection Fund

A statutory fund maintained by a billing authority, which is used to record local taxes and Non-Domestic Rates collected by the authority, along with payments to precepting authorities, the national pool of Non-Domestic Rates and the billing authority's General Fund

Community Assets

Assets which the Council intends to hold in perpetuity, that have no determinable finite useful life, and that may have restrictions on their disposal, e.g. parks, historical buildings. See also Non-Current Assets.

Consistency

The concept that the accounting treatment of like items within an accounting period and from one period to the next is the same

Contingency

Money set aside in the budget to meet the cost of unforeseen items of expenditure, or shortfalls in income.

Contingent Asset

A possible asset that arises from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control.

Contingent Liability

A contingent liability is either:

- a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control; or
- a present obligation arising from past events where it is not probable that a transfer of economic benefits will be required, or the amount cannot be measured with sufficient reliability.

Glossary of Terms and Abbreviations

Council Tax

The main source of local taxation for local authorities. Council Tax is levied on households within its area by the billing authority. The proceeds are paid into the Collection Fund for distribution to precepting authorities and the Council's General Fund.

Creditors

Amounts owed by the Council for works completed, goods received, or services rendered before the end of the accounting period but for which payments have not been made.

Current Assets

Assets which can be expected to be consumed or realised during the next accounting period.

Current Liabilities

Amounts which will become due or could be called upon during the next accounting period.

Current Service Cost (Pensions)

The increase in the present value of a defined benefit scheme's liabilities as a result of employee service earned in the current period.

Curtailement (Pensions)

An event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service.

D

Debtors

Amounts due to the Council for works completed, goods received, or services rendered before the end of the accounting period but for which payments have not been received.

Demographic assumptions (Pensions)

Assumptions re the longevity of current and future pensioners used by the actuary in assessing pension scheme liabilities.

Depreciation

The estimated benefit of an asset consumed during the accounting period, owing to age, wear and tear, deterioration or obsolescence.

E

Equity

The value of the Council's total assets less total liabilities.

Equity Instrument (Financial instruments)

A contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Events After the Reporting Period

Those events, both favourable and unfavourable, of such materiality that either their disclosure, or amendment to the accounts, is required for the fair presentation of the Statement of Accounts, which occur between the Balance Sheet date and the date on which the Accounts are signed by the responsible financial officer.

Glossary of Terms and Abbreviations

Expected credit losses (Financial instruments)

The weighted average of credit losses with the respective risks of a default occurring as the weights. 12-month expected credit losses is the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of a financial instrument.

Experience gain (Pension schemes)

The actuarial gains and losses element arising where actual events have not coincided with the actuarial assumptions made at the last assessment.

External Audit

The independent examination of the activities and accounts of local authorities in order to give an opinion as to whether the Statement of Accounts have been prepared in accordance with legislative requirements and proper practices, and to ensure the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

F

Fair Value (FV)

The price an asset could be exchanged for in an orderly transaction between market participants at the measurement date.

Fees and Charges

Income raised by charging users of services, e.g. leisure centres, planning fees, trade refuse, etc.

Finance Lease

A lease that transfers substantially all the risks and rewards of ownership of an asset to the lessee. Accounting guidance requires that it should be presumed that such transfer of risks and rewards occurs if at the inception of a lease the present value of the minimum lease payments including any initial payment, amounts to substantially all (normally 90% or more) of the fair value of the leased asset. The present value is calculated using the interest rate implicit in the lease.

Financial Asset

A right to future economic benefits controlled by the Council that is represented by:

- cash
- an equity instrument of another entity
- a contractual right to receive cash (or another financial asset) from another entity
- a contractual right to exchange financial assets/liabilities with another entity under conditions that are potentially favourable to the Council.

Financial assumptions (Pensions)

Finance related assumptions used by the actuary in assessing pension scheme liabilities (e.g. rates of inflation)

Financial Instruments

Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Glossary of Terms and Abbreviations

Financial Liability

An obligation to transfer economic benefits controlled by the Council that is either:

- a contractual obligation to deliver cash (or another financial asset) to another entity, or
- a contractual obligation to exchange financial assets/liabilities with another entity under conditions that are potentially unfavourable to the Council.

G

General Fund (GF)

The main revenue reserve of a billing Council, used to meet day-to-day spending.

Government Grants

Grants made by the Government towards either revenue or capital expenditure to support the cost of provision of the Council's services. Some grants may have conditions or be restricted to be used towards the cost of particular capital schemes or revenue expenditure of the Council.

Gross Expenditure

The total cost of providing the Council's services, before taking into account income from government grants and fees and charges for services.

Growth

Any increase in spending from one year to another which enables the Council to pay for more services rather than to meet higher costs.

H

Housing Benefit (Rent Allowances)

An allowance to persons on low (or no) income to meet, in whole or part, their rent. Benefit is paid by local authorities, but central government provides grant funding of part of the cost of the benefit provided and of the running costs of the service.

I

Impairment

A permanent reduction in the value of an asset, below its carrying amount on the Balance Sheet.

Income

Amounts that the Council receives or expects to receive from any source, including fees and charges, sales and grants.

Individual Schools Budget

That part of the local schools' budget which must be delegated to schools via the school's funding formula.

Infrastructure Assets

Non-current assets belonging to the Council which do not necessarily have a resale value, expenditure on which is only recoverable by continued use of the asset created e.g. highways.

Intangible Assets

Non-financial assets which do not have physical substance but are identified and controlled by the Council through legal rights e.g. IT Software.

Glossary of Terms and Abbreviations

Interest Receivable

The money earned from the investment of surplus cash.

Inventories

Items of raw materials and stores the Council has procured to use on a continuing basis and which it has not yet used.

Investment Property

Land and Buildings non-current assets held solely to earn rentals or for capital appreciation, or both.

J

Joint Arrangement

An arrangement under which the participants engage in joint activities but do not create a legal entity.

Joint venture

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. It is usually a business arrangement in which two or more parties agree to pool their resources for the purpose of accomplishing a specific task.

L

Liability

A liability is where the Council owes payment to an individual or another organisation. See also Contingent Liability, Current Liabilities and Financial Liability.

Local Council Tax Support Scheme

Assistance provided by billing authorities to adults on low incomes to help pay their Council Tax bill. The cost is borne by the Council.

Local Management in Schools (LMS)

A system of delegation of management responsibility and budgets to schools, which has applied since 1990/91.

Long-Term Assets

Non-current and other assets which can be expected to be of use or benefit the Council in providing its service for more than one year.

Long-Term Liabilities

Amounts which will become due or could be called upon beyond the next accounting period.

M

Materiality

The concept that the Statement of Accounts should include all amounts which, if omitted, or misstated, could be expected to influence the decisions of the user of the financial statements.

Minimum Revenue Provision (MRP)

The minimum amount which must be charged to a Council's revenue account each year and set aside as provision for repayment of debt, as required by the Local Government Act 2003.

Glossary of Terms and Abbreviations

N

National Non-Domestic Rates (NNDR / 'Business rates')

A levy on businesses, based on a national rate in the pound set by the Government, multiplied by the rateable value of the premises they occupy.

Net Book Value (NBV)

The amount at which non-current assets are held after deducting any accumulated depreciation and impairment losses.

Net Debt

The Council's total borrowings less cash investments.

Net Expenditure

Gross expenditure less specific service income.

Net Interest on the Net Defined Benefit Liability (Pensions)

The net interest expense - the change during the period in the net benefit liability that arises from the passage of time.

Non-Current Assets

Property, plant and equipment and other assets that bring longer term benefit or service potential to the Council.

Non-Operational Assets

Assets held by the Council but not directly occupied, used or consumed in the direct delivery of services, e.g. assets in the course of construction and surplus assets.

O

Operating Lease

A lease other than a Finance Lease (see above). The future obligations relating to operating leases are disclosed to provide the reader with an estimate of the outstanding un-discharged obligations in relation to such leases.

Operational Assets

Non-current assets held and occupied, used or consumed by the Council in the direct delivery of those services for which it has a statutory or discretionary responsibility.

Out-turn

Actual income and expenditure in a financial year (accounting period).

P

Past Service Costs (Pensions)

The increase in the present value of the defined benefit scheme liabilities, related to employee service in prior periods, arising as a result of, or improvement to, retirement benefits.

Pension Fund

An employees' pension fund maintained by an authority, or group of authorities, in order to make pension payments on the retirement of its participants. It is financed from contributions from the employing authority, the employee and from investment income.

Glossary of Terms and Abbreviations

Pension Strain

Pension strain costs occur when there is a shortfall in the assumed level of funding needed to provide a particular pension benefit. This may occur when a member draws their benefits earlier than expected.

Precept

A levy made by one statutory body (the Precepting authority) on another to meet the net cost of its services.

Precepting Authorities

Those authorities raising a precept that are not Billing authorities; i.e. do not collect the Council Tax and National Non-Domestic Rates. Police authorities are 'major' precepting authorities and town and parish councils are 'local' precepting authorities.

Prior Period Adjustments

Adjustments made to prior years comparator figures arising from changes in accounting policies or from the correction of material errors.

Provisions

Amounts set aside for the purposes of providing for any liability or loss which is likely or certain to be incurred but is uncertain as to the amount or the date on which it will arise, e.g. bad debts.

Prudence

The concept that income should only be anticipated to the extent that it will be received, as cash or other assets, with reasonable certainty and full and proper allowance should be made for all known and foreseeable losses and liabilities.

Prudential Code

The CIPFA Prudential Code for Capital Finance in Local Authorities – the guidance applicable from April 2004 for the greater freedom for authorities to borrow to fund capital investment (under the Local Government Act 2003). This Code requires the Council to set and monitor a suite of Prudential Indicators, including its Affordable Borrowing Limit, and establish its policy for using the new freedoms.

Public Works Loan Board (PWLB)

A central government agency which provides long and medium-term loans to local authorities at interest rates only slightly higher than those at which the Government itself can borrow. The Council is able to borrow a proportion of their requirements to finance capital expenditure from this source.

R

Rateable Value

The annual assumed rental value of a property that is used for NNDR purposes.

RCCO

Revenue Contributions to Capital Outlay - Resources provided from the Council's revenue budget to finance the cost of capital projects.

Revenue Expenditure Funded by Capital Under Statue (REFCUS)

Expenditure of a capital nature but which gives rise to no tangible asset held by the Council, e.g. renovation grants

Glossary of Terms and Abbreviations

Related Parties

Two or more parties are related parties when at any time during the financial period:

- One party has direct or indirect control of the other party; or
- The parties are subject to common control from the same source; or
- 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 at all times its own separate interests; or
- The parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interest.

Examples of related parties to an authority include central government, local authorities and other bodies precepting or levying demands on the Council Tax, its members, its Chief Officers and its pension fund.

For individuals identified as related parties, it is also presumed that members of the close family, or the same household, or any partnerships, companies in which the individual or a member of their close family, or the same household has a controlling interest, are deemed to be related parties.

Related Party Transactions

The transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made. The materiality of related party transactions is judged not only in terms of their significance to the Council, but also in relation to its related party.

Reserves

Amounts set aside in the accounts for the purpose of meeting general, future expenditure. Reserves may also be used to smooth the cost of certain activities over a number of years. A distinction is drawn between reserves and provisions (see above), which are set up to meet known liabilities.

Retirement Benefits

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment.

Return on Plan Assets (Pensions)

Changes during the period in the net benefit liability that arises from the passage of time, excluding amounts included in Net Interest on the Net Defined Benefit Liability.

Revenue Expenditure

Spending on day-to-day items including employees' pay, premises and transport costs and supplies and services.

Revenue Reversion

Revenue reversion may occur if a capital project is discontinued before the asset is constructed – any previously incurred costs, having produced no asset, cannot be capitalised, and need to be charged to revenue i.e. reverted to revenue.

Revenue Support Grant

A general grant paid by the Government to Council's contributing towards the costs of its services.

Glossary of Terms and Abbreviations

S

Settlements (Pension schemes)

A gain or loss on settlement arises when an authority enters into a transaction that eliminates all further obligation for the benefits provided under a defined benefit plan. Settlements have the effect of extinguishing a portion of the plan liabilities, usually by transferring plan assets to or on behalf of plan members to their new employer.

Specific grants

The term used to describe all government grants to local authorities, including revenue and capital grants, where the use of the grant is specified by central government.

Subsidiary

Subsidiaries are entities over which the Council has control. The Council controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity, and has the ability to affect those returns through its power over the entity.

Supported Borrowing

The amount of Council borrowing towards which the Government provides financial support through the annual Revenue Support Grant.

T

Temporary Borrowing

Money borrowed for a period of less than one year.

Total Cost

The actual cost of services reflecting all of the direct, indirect and overhead costs that have been incurred in providing the service, even where the expenditure is not under the control of the service's chief officer.

U

Unsupported (or Prudential) Borrowing

Any borrowing the Council undertakes that is above and beyond the level of Supported Borrowing (which the Government helps to fund), and which therefore the Council has to fund from its own resources.

Glossary of Terms and Abbreviations

Abbreviations used in the Statement of Accounts

B&NES	Bath & North East Somerset Council
BCF	Better Care Fund
CCG	Clinical Commissioning Group
CIPFA	Chartered Institute of Public Finance and Accountancy
DFE	Department for Education
DFT	Department for Transport
DEFRA	Department for Environment, Food & Rural Affairs
DLUHC	Department for Levelling Up, Housing and Communities (DLUHC) (previously MHCLG - Ministry of Housing, Communities and Local Government)
IFRS	International Financial Reporting Standard
LAAP	CIPFA's Local Authority Accounting Panel
LASAAC	Local Authority (Scotland) Accounts Advisory Committee
LEP	Local Enterprise Partnership
LMS	Local Management in Schools
LSTF	Local Sustainable Transport Fund
MRP	Minimum Revenue Provision
NBV	Net Book Value
NNDR	National Non-Domestic Rates
NSEC	North Somerset Environment Company Limited (a subsidiary of the Council)
PWLB	Public Works Loans Board
REFCUS	Revenue Expenditure Funded by Capital Under Statute
SERCOP	Service Expenditure Reporting Code of Practice

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North Somerset Council

Report to the Audit Committee

Date of Meeting: 22nd September 2022

Subject of Report: Audit Committee Annual Report

Town or Parish: None

**Officer/ Member Presenting:
Councillor John Cato – Chair of the Audit Committee**

Key Decision: No

Recommendations

The Audit Committee approves the Annual Report for 2021/ 22 at Appendix 1.

Summary of Report

The Audit Committee has specific terms of reference given to it from Full Council and as such is required to report back annually to Council on its activities. Appendix 1 is the proposed summary report for approval by the Audit Committee.

The Committee is requested to consider the Annual Report and recommend its approval by Full Council.

1. Policy

There is no statutory obligation to have an Audit Committee, however they are widely recognised as a core component of effective governance as laid out in best practice from a number of professional bodies. The Audit Committee therefore has a key role in advising the council on the adequacy of its financial governance and other management arrangements for achieving the organisation's objectives.

2. Details

Appendix 1 sets out a report with details a high-level summary of the activities of the Committee. It provides a commentary over key areas of financial and corporate governance and associated assurance activities including:

- Internal audit
- External audit
- Risk management
- Governance
- Anti-fraud and corruption
- Audit Committee performance

The Annual Report also incorporates the Committee's outline programme for 2022/23, as shown in Appendix 2. In noting this work programme, it should be acknowledged that the programme may change during the year to accommodate any emerging significant governance, internal control, or risk issues.

Benefits for Customers/ Residents

The committee's work is based around ensuring the council's systems of control and arrangements for the management of risk are effective. This effectiveness is central to the council achieving its corporate objectives. In addition, a strong control environment and effective risk and governance arrangements enable the council to secure its assets and ensure that they are used in the best interests of customers and residents of the council.

3. Consultation

Prior to its production, this report has been discussed between the Chair and Vice-Chair of the Audit Committee, the S151 Officer, and the Head of Audit and Assurance.

Given the nature of the report, no further consultation and engagement was necessary beyond these interactions and those that there have been with the Committee over the period covered by the report. Committee Members will have the opportunity to comment and make suggestions in the meeting before it is approved.

4. Financial Implications

There are no direct financial implications in relation to this report.

5. Legal Powers and Implications

There are no direct legal implications from this report which is focussed on a high-level summary of the activities of the Committee.

6. Climate Change and Environmental Implications

There are no direct environmental implications from this report which is focussed on a high-level summary of the activities of the Committee.

7. Risk Management

The Audit Committee is tasked with ensuring that there are effective arrangements within the Council for managing significant risks. This responsibility is reflected in the Audit Committee's Terms of Reference. An effective Audit Committee demonstrates good governance in that democratically elected Members carry out an independent scrutiny role on behalf of the Community. This helps to ensure that the Council is delivering good value to its residents from its services and is managing its key risks appropriately.

8. Equality Implications

There are no specific equality implications. The elected members serving on the Audit Committee are representative of the council's political balance.

9. Corporate Implications

Good Corporate Governance and Risk Management is the responsibility of all officers and Members of the Council.

10. Options Considered

None.

Authors

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Background Papers

Members requiring further information are requested to refer to the agenda, reports and minutes of the Committee meetings posted on the council's website.

<https://n-somerset.moderngov.co.uk/ieListMeetings.aspx?Committeeld=153>

Appendix 1

Audit Committee Annual Report to Council - 2021/22

1. Introduction

This is the sixteenth annual report of the Committee since it was established by the Council in July 2006. It covers the work undertaken from August 2021 to July 2022. The purpose of this report is to comply with the Constitution that requires the Full Council to receive a report from the Audit Committee, detailing its activities and effectiveness for the year and the proposed work programme for the following year. The Committee's annual report is one of the means by which the Council is assured that the Committee is carrying out its role effectively.

2. General Approach

The Audit Committee is committed to the principles of openness, effectiveness, and collaboration. The Committee is a key component of the Council's governance framework. Its function is to provide an independent and high-level resource to support good governance and strong public financial management. The purpose of the Committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and governance processes. By overseeing both internal and external audit activity it makes an important contribution to ensuring that effective assurance arrangements are in place.

To this end, in the last year the Audit Committee has held informal working group meetings regularly over the year to keep abreast of issues which may be of concern to it and to receive appropriate briefings/ updates from officers. Discussions have given consideration to the following main areas:

- Internal Audit
- Internal Control Frameworks
- External Audit
- Council Performance and CMMI culture
- Understanding of the Council's participation in the National Fraud Initiative
- Risk Management and Risk Management Reporting Improvement
- Audit Committee Training
- Significant partnerships governance and assurance; clarity and visibility of their responsibilities, objectives and KPIs
- Requesting clarity and visibility of the organisation chart, roles, responsibilities, objectives and KPIs
- External Best Practice and Peer Education
- Asset and Treasury Management
- Amendments to the Council's Constitution inc. Financial Regulations and CSO's

And has:

- Promoted access to the Audit Committee and to Audit Committee meetings to all members and scrutiny committees
- Pressed for improvements to resident/customer experience
- Pressed for quarterly Voice of Customer Report

- Developed a workplan ad hoc template agenda for further in year focus on issues
- Maintained dialogue with Audit Committees in other authorities in pursuit of best practice, continuous improvement and to understand lessons learned
- Identified gaps in Audit Committee skills and undertaken training
- The chair has regular informal meetings with officers, auditors, and executive members to monitor performance, including monthly meetings with the Chief Executive and Director of Corporate Services/ S151
- Has noted their concerns about HR - resilience, succession planning, work ~~over~~load, stress, training and continuous improvement.
- Continued challenge on the way that risks are presented to members to ensure that members are more aware when making decisions and caused action to be initiated on improving the council's Risk Management frameworks.
- Maintained peer connections outside of North Somerset Council.
- Recruited and appointed two skilled independent members of the audit committee

3. **Review of Work Undertaken in 2021/22**

a. **Financial Governance – Annual Accounts**

Due to the ongoing COVID-19 pandemic, local authorities were required to commence the public inspection period on or before the first working day of August 2021.

b. **Financial Governance – Treasury Management**

- The Committee acts as a scrutiny function for the Council's Treasury Management arrangements as recommended by CIPFA.
- The Committee formally received reports on the outturn of performance for the year 2021/22 including a mid-year update on performance and the strategy for the year 2022/23. Members expressed their thanks to the officers and advisors on additional informal work explaining the complexities and technical aspects of Treasury Management and were pleased to see that the Council was taking a balanced view in how to exploit opportunities in this area to deliver increased value back to the Council.

c. **Financial Governance - External Audit**

- Alongside the audit of the accounts for 2020/21 which were examined during the last 12 months the external auditor also conducted work in relation to Value for Money for the Council following assessments of our financial resilience, economy, efficiency and effectiveness and a Satisfactory review of our main grant returns. The committee is pleased to note that there were no significant findings or recommendations arising from the first Value for Money report.
- The external auditor also presented their audit plans. No significant variances were proposed from the previous audit approach and update reports on their work continued to be presented to the Committee alongside references to key national reports and reviews which could impact on the governance framework.
- The Committee supported the recommended option for the future procurement of External Auditors to the Council by Public Sector Audit Appointments Limited.

d. Corporate Governance (Including Risk Management) –

- i. The Accounts and Audit Regulations require the Council to carry out an annual review of its governance arrangements, and to produce an annual statement detailing the results of that review.
- ii. In terms of significant issues identified, the Committee did recognise through the Annual Governance Statement the state of the financial challenge facing the Council, not least due to the ongoing issues with COVID-19. Additionally, a significant issue has been added to reflect the need to ensure robust governance and transparency of risks to the Councils capital programme.
- iii. During the year the Committee received updates on the Councils key risks. This included a presentation on Corporate Risk Registers. The Committee spent time discussing these and are looking to see further improvements in reporting for members.
- iv. The Committee are pleased to note the Chief Executive, the Director of Corporate Services/ S151 and the Head of Business Insight, Policy and Partnerships have brought a commitment to a standard model dashboard for risk assessment and reporting which is in the process of being implemented.
- v. The Audit Committee expressed continued interest in respect to the governance, transparency, and visibility to Councillors over major projects and will be following progress on this.
- vi. The Committee reviewed and recommended the refresh of the Council's Constitution, including changes to parts of the Financial Regulations and Contract Standing Orders.

e. Corporate Assurance -

Internal Audit & Counter Fraud

- i. The Committee was satisfied with the balance of the 2022/23 [forward plan](#) in relation to the Council's key corporate risks as well as the mix of its planned projects, unplanned commissions and follow-up of previous reports.
- ii. In relation to performance the Committee received quarterly updates on key issues and service performance for 2021/22, notably high-risk audits and the impacts of COVID-19 unplanned work and investigations and follow-up of recommendations made during previous audits.
- iii. The committee noted the annual opinion on the internal control framework and that with increased pressure on budgets as well as a continuing theme of staff homeworking, choices on the degree of internal control had to be made and, as per 2020/21 there was a continued heightened level of risk being accepted.
- iv. The Committee received briefings on areas of Counter-Fraud work in reducing and eliminating fraud and corruption within the Council's activities and monitored

progress. They also received and approved the Council's updated Counter-Fraud Strategy and associated policies.

f. Audit and Assurance Annual Report

This was the closing Internal Audit Annual Report to the Committee for the financial year 2021/22. Also included was a summary of audit performance and key issues, as well as the formal opinion on the internal control framework.

g. Audit and Assurance Plan

This report described the reasonable assurance model for internal audit and summarised the Audit and Assurance work plan as identified and prioritised by internal audit.

h. Internal Audit Charter

Internal Audit is an assurance function that primarily provides an independent and objective opinion to the Council on its control environment. Internal Audit helps the organisation to achieve its objectives through a systematic and disciplined approach to evaluate and improve the effectiveness of governance, risk management and control, processes. Its mission is to enhance and protect organisational value by providing risk based and objective assurance, advice and insight.

i. Awareness & Briefings

i. Updates and briefings continue to be a strong part of the Committee's approach to raising awareness of key governance issues with members and several briefings were given this year through the normal meeting cycle which included -

- Ongoing Impact of COVID-19 on Council Finances
- External Audit
- Internal Audit
- Treasury Management
- Annual Accounts
- Fraud Prevention/ Counter-Fraud inc. National Fraud Initiative
- Risk Management, Risk Assessment and Risk Registers

ii. This approach continues to be welcomed and has resulted in constructive and valuable debate of individual topic areas which will continue into 2022/23. The committee have also identified areas where they would like to receive briefings next year.

4. Audit Committee Training

The Chair and Vice-Chair are keen that external formal training for all Audit Committee members is undertaken as a regular annual process.

As well as attending the briefings identified in this report, in addition some Audit Committee Training has been achieved by free courses identified by audit committee

members and voluntarily completed. All members of the audit committee also received formal training from CIPFA regarding Local Government Financial Statements.

The Chairman of the Committee is also a member of the South West Chairs of Audit and Governance Forum, which considers and compares best practice in areas of audit, governance and risk management. The Chairman shares this information with Members at North Somerset Council.

The committee is looking to find ways to achieve more external training for all committee members in the forthcoming year and a training plan is being developed in this respect. We have an intention to have a robust training plan ready for the next council elections.

5. Work Plan for 2022/23

The workplan is kept under review in the informal and formal meetings of the committee and in discussions with the officers and auditors. Planned subjects for 2022 – 2023 are shown in detail in Appendix 2, however it is acknowledged that it may not be possible to cover all of these areas within the financial year and thus the work plan will be update as necessary.

6. Membership and Support

- i. Councillor John Cato is the Chair of the Committee. The Vice Chair is Councillor Sandra Hearne, and the other members are Councillors Patrick Keating, Marcia Pepperall and Richard Tucker. There were no independent co-opted members for year 21-22.

Work has been completed in-year to recruit independent co-opted members. Two members have been successfully recruited and looking ahead they will attend their first formal meeting in September 2022.

- ii. The Committee is supported by a range of officers, notably the Director of Corporate Services (S151 Officer), engagement leads from Audit West, the Head of Finance, the Head of Business, Insight and Policy, and Democratic Services.
- iii. The external auditors are currently represented by an Engagement Lead and Audit Manager from Grant Thornton.
- iv. The Committee is in contact with Audit committees from other authorities to exchange views, methods of working, and ideas.

Appendix 2 – Audit Committee 2022/23 Formal Meetings Workplan

Main business provisional work plan:

Audit Committee Formal Meetings Work Plan - which set out provisional agendas for forthcoming meetings - Revised				Sep-22	Nov-22	Jan-23	Apr-23	Sep-23	Nov-23
Title	Frequency	Lead Officer	Purpose of Report	Sep-22	Nov-22	Jan-23	Apr-23	Sep-23	Nov-23
Standing items to cover statutory functions									
Internal Audit (IA) updates and Annual Report	Quarterly	Head of Internal Audit	Internal Audit Assurance						
Counter Fraud - Annual Anti-Bribery, Fraud and Corruption Plan	Annual	Head of Internal Audit	Fraud and corruption detection						
Review of Minutes and Matters Arising from previous meetings	Quarterly	Committee chair/ Director	Review of actions and matters						
Risk Management - Internal Audit - covered in annual report	Annual	Head of Internal Audit	Reasonable Assurance model						
Risk Register updates - NSC	Quarterly	Head of Business Intelligence	Corporate Governance monitoring						
External Auditor (EA), plan and progress update	Six monthly	External Auditors	To provide those charged with						
Risk Management Framework Update	Annual	Head of Business Intelligence	Risk Management Governance						
Annual Audit Letter (EA)	Annual	External Auditors	To provide those charged with						
Annual Governance Statement (Draft)	Annual	Director of Corporate Governance	To present the draft AGS for consideration						
Annual Governance Statement (Final)	Annual	Director of Corporate Governance	To present the AGS for consideration						
Annual Letter of Representation	Annual	Committee chair/ Director	Letter of Representation						
Annual Statutory Accounts (Draft)	Annual	Head of Finance	Draft Statement of Accounts						
Annual Statutory Accounts (Audited)	Annual	Head of Finance	Audited Statement of Accounts						
Audit Committee Workplan	Annual	Committee chair/ Director	Member Information and Assurance						
External Audit (EA) Findings Report/Audit Opinion	Annual	External Auditors/Head of Internal Audit	To provide those charged with						
Grant Certification Report (EA)	Annual	External Auditors/Head of Internal Audit	Financial Governance and Assurance						
Report of Work Undertaken by Audit Committee	Annual	Committee Chair/ Head of Internal Audit	Member Information and Assurance						
Accounting Policies	Annual	Head of Finance	Finance Governance and Assurance						
Internal Audit Plan - Draft	Annual	Head of Internal Audit	Draft plan for consultation						
Internal Audit Plan	Annual	Head of Internal Audit	Annual Internal Audit and Assurance						
Treasury Management Strategy (Draft)	Annual	Head of Finance	Treasury Management Strategy						
Treasury Management Strategy	Annual	Head of Finance	Treasury Management Strategy						
Treasury Management (TM) performance/ outturn	Six monthly	Head of Finance	Annual Treasury Management Strategy						
Business Continuity Governance	Annual	To be confirmed	Risk Management Governance						

Title	Frequency	Lead Officer	Purpose of Report	Sep-22	Nov-22	Jan-23	Apr-23	Sep-23	Nov-23
Standing items to cover statutory functions									
Internal Audit (IA) updates and Annual Report	Quarterly	Head of Internal Audit	Internal Audit Assurance						
Counter Fraud - Annual Anti-Bribery, Fraud and Corruption Plan	Annual	Head of Internal Audit	Fraud and corruption detection						
Review of Minutes and Matters Arising from previous meetings	Quarterly	Committee chair/ Director	Review of actions and matters						
Risk Management - Internal Audit - covered in annual report	Annual	Head of Internal Audit	Reasonable Assurance model						
Risk Register updates - NSC	Quarterly	Head of Business Intelligence	Corporate Governance monitoring						
External Auditor (EA), plan and progress update	Six monthly	External Auditors	To provide those charged with						
Risk Management Framework Update	Annual	Head of Business Intelligence	Risk Management Governance						
Annual Audit Letter (EA)	Annual	External Auditors	To provide those charged with						
Annual Governance Statement (Draft)	Annual	Director of Corporate Governance	To present the draft AGS for consideration						
Annual Governance Statement (Final)	Annual	Director of Corporate Governance	To present the AGS for consideration						
Annual Letter of Representation	Annual	Committee chair/ Director	Letter of Representation						
Annual Statutory Accounts (Draft)	Annual	Head of Finance	Draft Statement of Accounts						
Annual Statutory Accounts (Audited)	Annual	Head of Finance	Audited Statement of Accounts						
Audit Committee Workplan	Annual	Committee chair/ Director	Member Information and Assurance						
External Audit (EA) Findings Report/Audit Opinion	Annual	External Auditors/Head of Internal Audit	To provide those charged with						
Grant Certification Report (EA)	Annual	External Auditors/Head of Internal Audit	Financial Governance and Assurance						

Ad Hoc further items to be decided

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Title	Frequency	Lead Officer	Purpose of Report	Sep-22	Nov-22	Jan-23	Apr-23	Sep-23	Nov-23
Governance - ad hoc reports when changes happen, a risk arises which requires additional assurance or as a result of audit recommendations									
Major Projects Governance Strategy Update	When required	Head of Major Projects	Major Projects Governance						
Outsourced Services Governance Strategy Update	When required	Director of Corporate Governance	Strategic Procurement Governance						
Procurement Governance Strategy Update	When required	Director of Corporate Governance	Outsourced Services Governance						
Support Services Contract Governance Briefing	When required	Director of Corporate Governance	Support Services Governance						
Critical Incident and Emergency Response Audit and Governance	When required	Director of Corporate Governance	Corporate Governance monitoring						
Information Technology Audit and Assurance	When required	Director of Corporate Governance	IT Governance Assurance						
Climate Emergency Governance, Metrics and Control	When required	Director of Corporate Governance	Corporate Governance monitoring						
Procurement Processes Governance Assurance	When required	Director of Corporate Governance	Procurement Governance Assurance						
Information Security Audit and Assurance	When required	Director of Corporate Governance	Security Governance Assurance						
Cyber Security Audit and Assurance	When required	Director of Corporate Governance	Security Governance Assurance						
Third Party Outsourced Services Governance Assurance	When required	Director of Corporate Governance	Delegated/Outsourced Services Governance						
Directorate Report on organisation and governance.	When required	As required	Directorate Governance and Internal Control						
Constitution Review and Update briefing - informal	When required	Assistant Director - Governance	for recommendation of proposed changes						
Significant Partnerships Governance Strategy Update	When required	Director of Corporate Governance	Governance, Risk Management and Compliance						
Contract Standing Orders	When required	Assistant Director - Governance	Principles and structure of governance						
Voice of the Customer Report	When required	Director of Corporate Governance	Governance, Customer/Resident Engagement						
Continuous Performance Improvement Update	When required	Director of Corporate Governance	Governance, Risk Management and Compliance						
Ethics and Standards	When required	Internal Audit?	Ethics and Standards Assurance						
HR matters	When required	Director of Corporate Governance	HR Governance						
Council Continuous Improvement Update	When required	Director of Corporate Governance	HR Governance						
Financial Regulations	When required	Head of Finance	Finance Governance and Assurance						
Annual Training - suggest that training needs analysis is completed to ensure focussed									
AC Member Training - stage 1 - plan/specify/establish		Director of Corporate Governance	Redmond Review - Audit Committee						
AC Member Training - stage 2 - training commissioned		Director of Corporate Governance	Redmond Review - Audit Committee						
Principles of Governance, Assurance and Audit		Director of Corporate Governance	To ensure skills and knowledge						
Role of Audit Committee and deliverables		Director of Corporate Governance	To ensure skills and knowledge						
Role of External Audit and deliverables		Director of Corporate Governance	To ensure skills and knowledge						
Role of Internal Audit and deliverables		Director of Corporate Governance	To ensure skills and knowledge						
Role of S151/Finance		Director of Corporate Governance	To ensure skills and knowledge						
Role & Responsibilities of Senior Officers		Director of Corporate Governance	To ensure skills and knowledge						
Annual Accounts		Director of Corporate Governance	To ensure skills and knowledge						
Internal Controls		Director of Corporate Governance	To ensure skills and knowledge						
Risk Management		Director of Corporate Governance	To ensure skills and knowledge						
Business Performance		Director of Corporate Governance	To ensure skills and knowledge						
Role & Responsibilities of Senior Officers		Director of Corporate Governance	To ensure skills and knowledge						
Annual Accounts		Director of Corporate Governance	To ensure skills and knowledge						
Internal Controls		Director of Corporate Governance	To ensure skills and knowledge						
Risk Management		Director of Corporate Governance	To ensure skills and knowledge						
Business Performance		Director of Corporate Governance	To ensure skills and knowledge						

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North Somerset Council

REPORT TO THE AUDIT COMMITTEE

DATE OF MEETING: 22 SEPTEMBER 2022

SUBJECT OF REPORT: TREASURY MANAGEMENT OUT-TURN REPORT 2021/22

TOWN OR PARISH: ALL

OFFICER/MEMBER PRESENTING: MELANIE WATTS, HEAD OF FINANCE

KEY DECISION: N/A

REASON: This is a report for information.

RECOMMENDATIONS

The Audit Committee is asked to note the treasury management out-turn monitoring report to 31st March 2022 which includes performance, prudential indicators, and commercial investments.

1. SUMMARY OF REPORT

1.1 This report informs the Audit Committee of the council's;

- treasury management activities during 2021/22 and confirms that the activities undertaken during the year have complied with both the requirements of the Accountability and Responsibility Framework and the approved Treasury Management Strategy approved by Council in February 2021.
- treasury management indicators for 2021/22, as required by CIPFA's Prudential Code for Capital Finance in Local Authorities.
- commercial investment property valuations and returns for 2021/22.

2. POLICY

2.1 Part 1 (7) of the Financial Regulations, sets out the councils' policy framework with regards to treasury management activities.

2.2 Following the council's adoption of the 2017 edition of the Chartered Institute of Public Finance and Accountancy (CIPFA) *Treasury Management in the Public Services: Code of Practice*, Members are required to approve an annual treasury management strategy before the start of each financial year and then to receive an in-year monitoring report and an annual report after the end of each financial year. Such reports are required to include a range of core information and so the structure of this report meets those requirements.

3. DETAILS

- 3.1 Treasury management activities are undertaken by officers within the Finance Service which sits within the Corporate Services Directorate. The remit of officers is broad and covers a range of day-to-day operational tasks relating to the management of cash-flows and resultant outcomes of borrowing and investment decisions, as well as supporting the strategic direction required by the council to deliver its core services and cover key financial risks.

Headline Metrics for the period 1st April 2021 to 31st March 2022

- 3.2 £789m of cash-flows were managed and turned around during the period; this is £1bn less than the equivalent prior year period, although is to be expected because the 2020/21 financial year reflected the exceptional impacts arising from Covid-19.
- 3.3 Gross interest income earned on all investments totalled £0.621m, against a budget of £0.530m.
- 3.4 The average rate of investment return for cash deposit type investments managed by the in-house team in 2021/22 was 0.13% and returns of 3.97% were achieved on external pooled fund investments.
- 3.5 New additional external borrowing of £0.3m was undertaken during the period and £7.3m of borrowing was repaid, both as planned.
- 3.6 The council's Treasury Management Indicators for 2021/22 were approved by Council in February 2021. Performance against the key indicators is shown in **Appendix 1**. All indicators are within target levels.

Balance Sheet Summary

- 3.7 Treasury management related balances are reflected within the council's balance sheet, with some elements being shown as liabilities and others as assets. An extract of the key components is shown in the table below, together with a comparison of the previous year and the change that has occurred.

	31/03/21 Balance £m	Movement In Year £m	31/03/22 Balance £m	31/03/22 Rate %
Long-term borrowing	143.4	-6.7	136.7	3.97
Short-term borrowing	7.8	-0.4	7.4	2.32
Total borrowing	151.2	-7.1	144.1	3.88
Long-term investments	10.0	0.0	10.0	4.06
Short-term investments - in-house	123.0	34.0	157.0	0.13
Short-term investments - Tradition	10.0	0.0	10.0	0.19
Total investments	143.0	34.0	177.0	
Net (borrowing) / investments	-8.2	41.1	32.9	

- 3.8 It should be noted that the values reflected within this table are the principal sums of borrowing and investments made which may be different to the final values reflected within the council's statutory accounts. This is because the council is required to

follow accounting regulation and gross up these values to include technical adjustments such as accrued interest or reflect impairment assessments.

- 3.9 Investment balances at 31st March 2022 were £34m higher than in the previous year and this is due to a combination of grants and contributions received in advance at the year end, largely relating to both capital projects and ongoing funding towards Covid-19 impacts and the Government's energy rebate support package.
- 3.10 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in the table below.

Table 1 Balance Sheet Summary	31/03/21 £m	Movement £m	31/03/22 £m
General Fund Capital Financing Requirement	184.9	-1.2	183.7
Less: Other debt liabilities *	34.7	-0.8	33.9
Borrowing Capital Financing Requirement	150.2	-0.4	149.8
External borrowing	151.2	-7.1	144.1
Internal borrowing (over borrowing)	-1.0	6.7	5.7
Usable Reserves	101.3	19.1	120.4
Working Capital	43.1	59.4	16.3
Net investments	143.4	-6.7	136.7

* finance leases and transferred debt that form part of the council's total debt

- 3.11 On 31st March 2022, the council had net borrowing of £144.1m arising from its revenue and capital income and expenditure, which is £5.7m lower than the calculated borrowing CFR.

Summary of Investment Returns & Activity

- 3.12 **Overview** – table 1.2 provides an overview of the council's investment portfolio which is diversified across Money Market Funds, Local Authorities, the CCLA Property Fund, highly rated UK and Foreign Banks and UK Building Societies. The council uses AAA rated Money Market funds to maintain very short-term liquidity and had overall investments of £177m as at 31st March 2022. (CCLA – Charities, Churches & Local Authorities).

- 3.13 The table below shows further analysis of the investments held at 31st March 2022 and 31st March 2021 which adhered to the approved Investment Strategy.

Table 2 Analysis of External Investments (principal sums)			
	31/03/2021 £m	Movement £m	31/03/2022 £m
UK Banks	20.0	-6.0	14.0
UK Building Societies	0.0	32.0	32.0
Debt Management Office	10.0	18.0	28.0
Local Authorities	103.0	-10.0	93.0
Pooled Investment Funds	10.0	0.00	10.0
Total	143.0	34.0	177.0

- 3.14 **Security and liquidity** - it can be seen from the above that at the end of the year a total of £121m was being held with other local authorities (£93m) and the governments' Debt Management Office (DMO) (£28m).

The investment strategy continued to prioritise security and liquidity of cash-flows during last year, which meant that a large proportion of funds were placed into “safe havens” for short periods of time, such as the Debt Management Office (DMO) and inter-authority lending, until further clarity was provided around when funding was needed. The portfolio was therefore less diverse than in other years and investment periods were shorter than planned in the budget. Such measures would have reduced some areas of risk, i.e. operational service delivery, counter-party and country related risks although this could have impacted on inflationary risks and returns.

3.15 Cash-flows and market rates – Daily cash inflows and outflows vary over the year with semi-regular peaks and troughs in income and expenditure. For the first 10 months of the year, income tends to exceed expenditure, resulting in a build-up of cash balances. After January, the reduction in monthly council tax income receipts means these balances are depleted in the last two months of the year. This modelling supports a plan whereby the council would usually look to optimise its ability to generate higher yields at the start of a financial year as it locks in a proportion of its investment balances for longer periods of time, and this coincides with a time when there are often more opportunities are available within the market.

Unfortunately, that was not the case in 2021/22 because of the economic situation that prevailed at that time. Whilst the impacts of Covid may be diminished in our minds today, at the beginning of last year the ongoing impacts continued to be felt and they affected the broader economic climate, the underlying bank of England base rate, as well as specific investment opportunities and yields within the markets.

Investment yields for areas with higher levels of security were significantly reduced, notably those such as the inter-local authority and DMO markets and at various points in the year even moved into a negative yield position, meaning that the council could have been exposed to a potential investment ‘cost’ should a deal have been placed at that time. In the last quarter of 2021/22, there was an uplift in the inter-authority rates following bank rate rises between December and March.

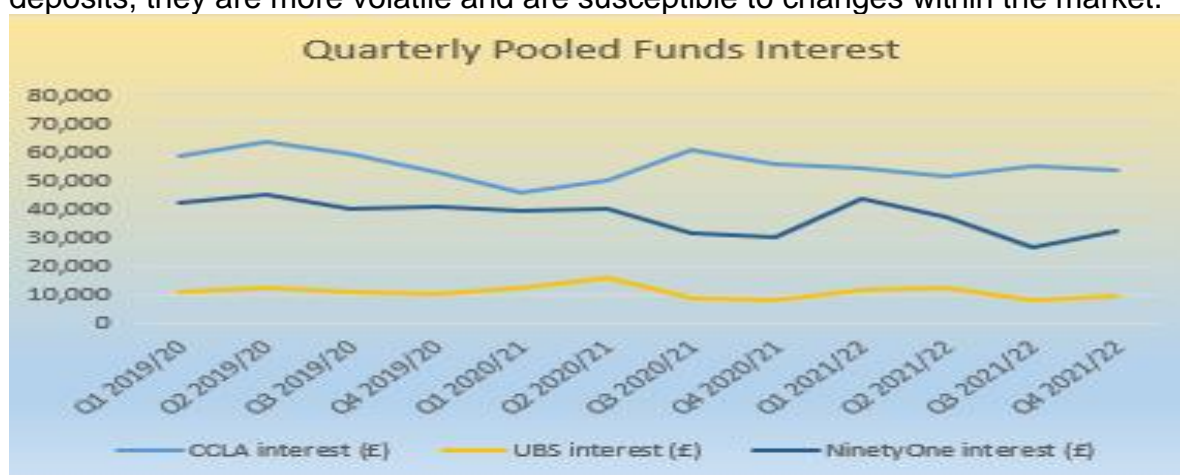
3.16 Investment returns - the table 1.3 below shows the average rates of return achieved during 2021/22 on investments placed by both treasury teams.

Table 3 Analysis of Investments								
	In-house				Tradition			
	Ave Return (%)	Return (£m)	Ave Time (days)	Ave Loans (No.)	Ave Return (%)	Return (£m)	Ave Time (days)	Ave Loans (No.)
Qtr 1 – to 30 th Jun	0.14%	0.108	177	52	0.14%	0.009	311	4
Qtr 2 – to 30 th Sept	0.06%	0.020	121	32	0.06%	0.001	243	1
Qtr 3 – to 31 st Dec	0.14%	0.033	175	21	0.09%	0.001	334	1
Qtr 4 – to 31 st Mar	0.43%	0.028	160	17	0.92%	0.007	364	2
Annual Average for Fixed Term Cash Deposits	0.13%	0.189	159	122	0.18%	0.018	323	4

Table 3 Analysis of Investments		
	In-house	Tradition

	Ave Return (%)	Return (£m)	Ave Time (days)	Ave Loans (No.)	Ave Return (%)	Return (£m)	Ave Time (days)	Ave Loans (No.)
CCLA pooled fund	4.33%	0.217	365	NA	NA	NA	NA	NA
UBS Multi Asset Fund	4.15%	0.042	365	NA	NA	NA	NA	NA
Ninety-one Diversified Income Fund	3.48%	0.139	365	NA	NA	NA	NA	NA
Annual Average for Pooled Funds	3.97%	0.398	365	NA	NA	NA	NA	NA

- 3.17** The first section covers fixed term cash deposits, which are traditional investments placed with banks, building societies, the DMO and other local authorities, where a principal sum is paid to the investor and a yield received at maturity along with the returned investment. The second section covers pooled investment funds where the councils' investment buys shares. Returns are given to the council on a quarterly basis depending on the value of the share price at that time.
- 3.18** The council's average investment return from its fixed term cash deposits was around 0.13%. This is not unexpected and is largely due to interest rates being depressed against the economic backdrop of continuing uncertainty around Brexit and the Covid-19 pandemic.
- 3.19** The table also shows that the council's in-house team achieved a marginally lower average rate of return during the year from its investments than that of the external fund manager. This would also be expected as the primary purpose of the in-house team is to manage cash-flows to support the operational delivery of council services whereas the external managers have no such constraints. The number and 'duration' of investments placed by each team differs significantly with the fund manager being able to take opportunities throughout the year to assess the yield curve, which offers higher rates of return for longer investment periods.
- 3.20** The council's average return from its £10m of pooled investment funds returns of 3.97%.
- 3.21** The chart below shows the quarterly returns achieved on the council's pooled funds over recent years and whilst they are higher than returns on traditional fixed term cash deposits, they are more volatile and are susceptible to changes within the market.



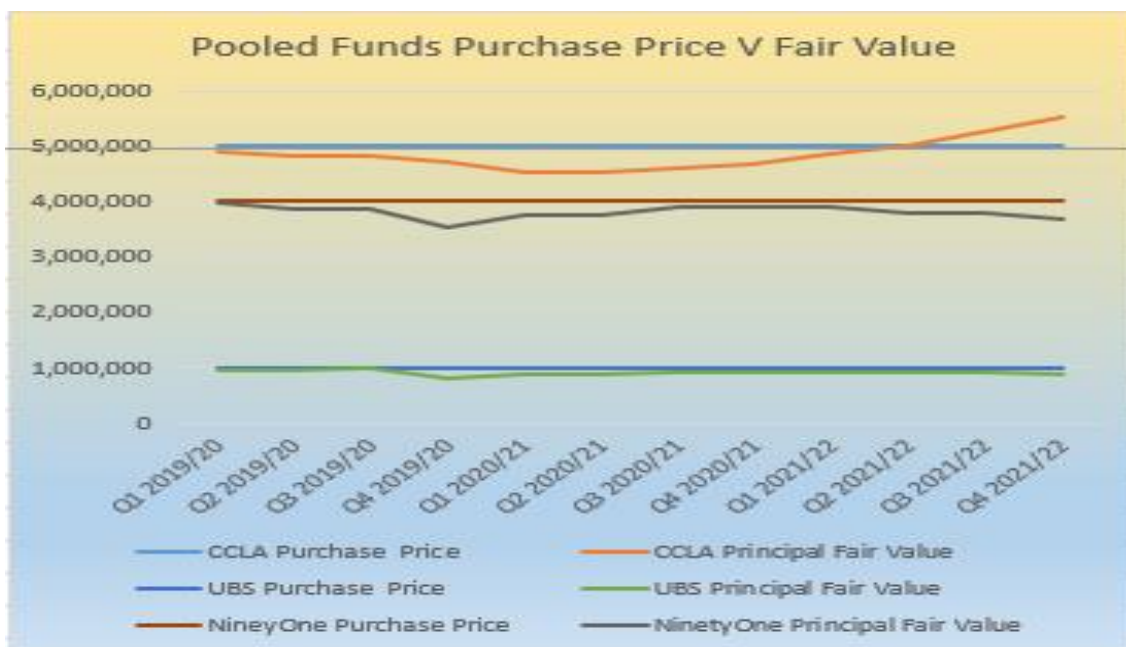
Budget Implications

- 3.22** The table below shows that the council received **£621k** from interest income during the year, which is £91k more than budgeted. This is due to a combination of the increase in investment balances during the year, increased interest rates in the last quarter and also stronger than expected CCLA income.

	In-House – Cash Deposits £000	Money Market Funds £000	Tradition UK Ltd £000	CCLA Property Fund £000	Other Pooled Funds £000	Total £000
Interest generated	190	14	19	217	181	621
Investment Interest Budget	100	16	15	206	193	530
Variance to Budget	90	-2	4	11	-12	91

Pooled Funds

- 3.23** Strategic fund investments are made in the knowledge that capital values will move both up and down over months, quarters and even years which is a significant risk factor for the council to consider when managing public funds. However, such investments are placed knowing that they can provide value in other ways and that the total returns they can offer over the investment period, will often exceed cash interest rates, which means that they provide a more significant contribution into the annual revenue budget compared to other investment products.
- 3.24** The treasury objective previously approved by Council was to place £5m of investments in a property fund and £5m in pooled funds, both of which should deliver annual returns of around 4% (based on rates at that time). The CCLA is the only property fund that councils can invest with, although there are a selection of multi-asset funds.
- 3.25** The council continues to hold the same pooled fund balances as in the previous year end. The initial principal amounts invested were:
- £5m - CCLA (property fund)
 - £4m Ninety-One (previously Investec) (multi-asset fund)
 - £1m UBS (multi-asset fund)
- 3.26** These funds have no defined maturity date, although are available for withdrawal after a notice period. Their performance and continued suitability in meeting the council's core investment objectives is regularly reviewed to ensure that they are fit for purpose.
- 3.27** As with any fund purchase, a capital loss was initially incurred when these investments were taken out although this is being made up over time. The funds' fair values have generally trended upwards since acquisition although they are susceptible to a wide range of factors and events. One notable reduction in the CCLA share price was in March 2020 shortly after the country went into the first period of lock-down, although that has improved over recent months. The latest impact on prices has been prompted by the Russian invasion of Ukraine which has resulted in a reduction multi-asset fund share price. That being said, at the end of the 2021/22 financial year the council's accounts reflected a net gain across all three funds. The cumulative capital gain on these investments is £82k at the year-end 31st March 2022.



3.28 The council has applied the fair value through profit and loss (FVPL) accounting treatment in accordance with guidance and must defer the funds' fair value movements to the Pooled Investment Fund Adjustment Account until 1 April 2023, which is an unusable reserve held on the balance sheet.

Borrowing activity and further update

3.29 At 31st March 2022 the council held £155.3m of external borrowing on its balance sheet which is held with the following counter-parties;

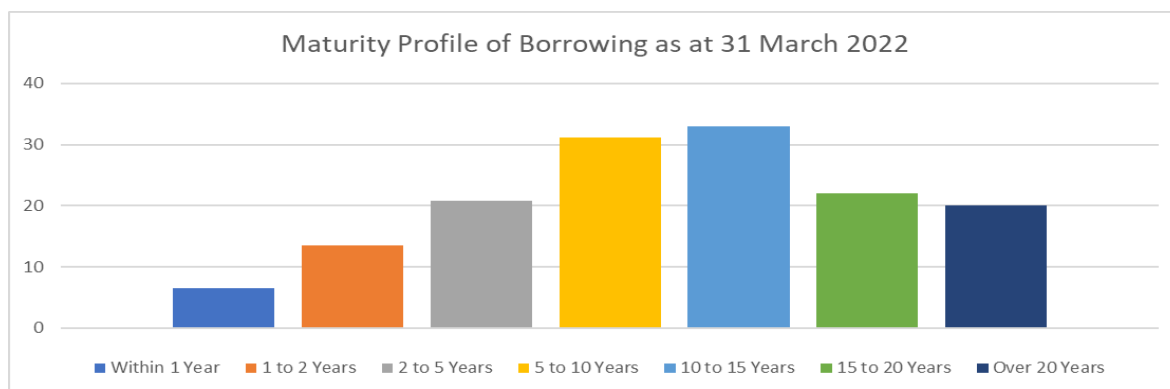
- £140.4m is held with the **Public Works Loan Board (PWLB)**,
- £3.1m with SALIX,
- £11.8m managed by Bristol City Council on behalf of 4 councils

The PWLB is operated by the UK Debt Management Office on behalf of HM Treasury and provides loans to local authorities, and other specified bodies, from the National Loans Fund, with borrowing only available for capital purposes.

Salix is an executive non-departmental public body, sponsored by the Department for Business, Energy and Industrial Strategy (BEIS) who deliver government funding to the public sector to improve energy efficiency, reduce carbon emissions and lower energy bills.

3.30 The maturity profile of PWLB debt is shown in the table and chart below.

	Debt £m	Average Rate %
Less than 1 year	6.00	2.32
Between 1 and 2 years	7.50	4.04
Between 2 and 5 years	20.76	3.87
Between 5 and 10 years	31.17	4.06
Over 10 years	74.95	4.08
	140.38	3.96



- 3.31** No new PWLB borrowing was undertaken, while £6.5m of existing PWLB loans were allowed to mature without replacement. Interest payments totalling £5.728m were paid in year, which was £0.166m lower than the approved budget. The council made a charge of £5.141m within the revenue budget in respect of the minimum revenue provision.
- 3.32** SALIX have provided funding to North Somerset for green initiatives, in this case energy efficient replacement street lighting. During the year, the council has made a partial repayment of £0.8m from the original loan funding from SALIX and drew down a new tranche of £0.3m bringing the total loan balance to £3.1m. Both tranches are repayable in 10 equal six-monthly instalments over 5 years. There are no interest obligations on this borrowing, although as a result the council does need to recognise this as a soft loan within its statutory accounts.
- 3.33** The council's balance sheet also reflects long-term borrowing obligations of £11.8m at the end of the year in respect of the former Avon County Council, which is paid off over a period of time. A partial repayment of £0.490m was paid during the year. These loans are currently held and administered by Bristol City Council.
- 3.34** The Capital Strategy report approved in February 2021 did indicate that the council would be required to borrow further sums to fund its capital programme over a 3-year period however, given the council's surplus cash-flow position, the council has not drawn down any external borrowing in 2021/22. Forecasts will continue to be reviewed to provide an updated assessment to inform future years' borrowing plans. These drivers would include capital expenditure spending profiles, market rates, current and future cash-flow forecasts.

Economic Impacts

- 3.35** Our treasury management advisor's economic and market review for 2021/22 is included in **Appendix 3**.
- 3.36** The continuing economic recovery from coronavirus pandemic, together with the war in Ukraine, higher inflation, and higher interest rates were major issues over the period.
- 3.37** Bank Rate was 0.1% at the beginning of the reporting period. April and May saw the economy gathering momentum as the shackles of the pandemic restrictions were eased. Despite the improving outlook, market expectations were that the Bank of England would delay rate rises until 2022. Rising, persistent inflation changed that.

- 3.38** Having increased Bank Rate from 0.10% to 0.25% in December, the Bank of England raised it further to 0.50% in February and 0.75% in March 2022.

Commercial Investments

- 3.39** The council's Commercial Investment Strategy was approved by Council in January 2019. In line with this strategy, the council made two investments in commercial property within the geographical boundary of North Somerset with the aim of earning both an annual return into the revenue budget as well as the potential for long-term capital appreciation. Investment income is received in year through a combination of rental and car parking income at the sites.
- 3.40** The investments made under the strategy were all agreed in previous years and consist of one outright purchase funded from long term borrowing, the North Worle District Centre, and one property acquired under a finance lease, the Sovereign Centre in Weston-super-Mare. Indicative sums have been set aside for potential improvements to the Sovereign Centre although no decisions to approve spending have taken place. There were no purchases or sale of assets during the 2021/22 financial year and there are no plans to undertake any further commercial investments in the future.
- 3.41** Performance and management of these assets is supported by specialist property advisors Montagu Evans and their activity is tailored to the specific requirements of each site. The North Worle site is leased to a single tenant and performance since purchase has been as expected within the original business plan. The Sovereign Centre site is more complex as it is an internal shopping centre within the town centre and has been impacted by several factors since acquisition. Monthly meetings are held on site to discuss all aspects of operational delivery and performance.
- 3.42** Any financial impacts or issues arising from these commercial investments are within the council's regular budget monitoring framework which is presented to the Executive throughout the year. Decisions surrounding capital investments would follow the council's capital governance routes, which will include Boards such as the Capital Programme, Planning and Delivery Board or the Capital Delivery Strategic Group.
- 3.43** In February 2021 the Executive approved a revised Sovereign Centre Business Plan, setting out the challenges, opportunities, and a new vision for the property. As part of this Business Plan, some of the vacant retail space within the centre is to be converted into office space to diversify away from pure retail use. Funding for this investment will come from the Getting Building Fund, which is a government grant with the regional allocation administered by the West of England Combined Authority (WECA). The project was near to completion at the end of March and should be operational from late summer / early autumn. The business plan shows that such investment should help to improve the financial performance of the Centre in future years although short-term additional support will be required for new operators at the outset.
- 3.44** Details of the financial performance are contained within the following sections of the report although it should be noted that as at 31 March 2022, these investments continued to be accounted for as an investment property within the balance sheet. The council has no plans to dispose of its commercial investment properties at this time.

Cost and valuation

- 3.45** All investment properties are re-valued annually by the council's valuers, for inclusion in the annual statutory accounts. The valuations are either prepared by in-house or independent professional valuers, in line with Royal Institute of Chartered Surveyors (RICS) professional guidance.
- 3.46** The council's portfolio of commercial investment property was valued at £33.0m at 31st March 2022. This is an increase of £0.4m compared to the value at the 2020/21 year-end, although a reduction of £28.2m compared to the original acquisition cost. The properties will be subject to a further revaluation at the end of March 2023.

Property	Acquisition cost (Incl fees) £m	31/03/2021 Valuation £m	31/03/2022 Valuation £m	Change over acquisition £m	Change over prior year £m
North Worle District Centre	40.2	29.0	28.0	-12.2	-1.0
Sovereign Centre	21.0	3.6	5.0	-16.0	1.4
Total	61.2	32.6	33.0	-28.2	0.4

- 3.47** The North Worle District Centre is leased to Sainsburys. Whilst still at a lower value than at the time of purchase, the food and grocery sector has proven to be better insulated from reductions in valuation than other retail property sectors. The valuation is linked to the rental income generated across the lease period and records show that the lease is due to mature within the next 4 years.

Income compared to budget

- 3.48** After servicing costs, fees and borrowing costs, commercial investments are budgeted to generate an annual net return to the revenue budget of £0.2m (2020/21 £0.1m). **Appendix 2** contains budget forecasts for each of the council's commercial investments, both of which have provided returns for the year in line with or slightly exceeding budget expectations, at £0.4m (2020/21 £0.1m).
- 3.49** The main Sainsbury's store at North Worle has remained open and trading throughout the financial year, and the council has continued to receive income as planned.
- 3.50** Whereas the investment at the Sovereign Centre has continued to be impacted by economic factors, some of which can be attributed to Covid, although not all. Monitoring shows that the council received lower levels of income for car parking activity during the year although this was offset by slightly more rental income. That being said, rent levels continue to be depressed by wider market conditions which are prevalent across the retail sector. This can mean that at the end of a rental period, the tenant can expect to re-negotiate a new lease at a lower rent than before in line with market conditions. There also continue to be some vacancies at the Centre following store closures.
- 3.51** The council has created a commercial investment smoothing reserve as part of its risk management measures which is available to smooth annual fluctuations on the council's revenue budget if needed. This would not only cover periods of higher cost prices or income reductions from vacant units, but the reserve would also cover

income reductions that may arise as a result of lease renewals, as they often include rent free periods as part of the renewal terms.

Yield / Return on investment

3.52 As detailed in **Appendix 2**, the council’s commercial investments provided an annual yield / return on investment of 0.7% in 2021/22 (0.2% in 2020/21).

4. CONSULTATION

4.1 Financial information and performance details are included within the council’s monthly budget monitoring processes and key messages are described within the narrative report where required.

5. FINANCIAL IMPLICATIONS

5.1 Financial implications are contained throughout the body of the report within the relevant sections however, an additional summary has been included to provide a high-level overview of the key components linked with capital financing and investment decisions.

Table 7 - Budget impacts – capital financing and interest			
	2021/22 Budget £000	2021/22 Out-turn £000	2021/22 variance £000
Interest payable on borrowing	5,894	5,728	-166
Interest receivable on investments	-530	-621	-91
Minimum revenue provision	6,874	5,968	-906
Total	12,238	11,075	-1,163
MRP analysis;			
- Supported Borrowing Minimum Revenue Provision	1,127	900	-227
- Prudential Borrowing Minimum Revenue Provision	4,920	4,241	-679
- Ex-Avon Loan Debt Minimum Revenue Provision	490	490	0
- Finance Leases Minimum Revenue Provision	337	337	0

6. LEGAL POWERS AND IMPLICATIONS

6.1 This report is for information only and covers the council’s required obligations.

7. CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS

7.1 The council will continue to avoid any direct treasury management investments in fossil fuel related companies and will engage with its advisors to explore and assess the potential for any future investment opportunities in funds with a Renewable Energy & Sustainability focus as these products continue to be developed by the market in response to the Climate & Nature Emergency agenda.

7.2 The council continued to hold an investment in a Green Deposit account with Barclays Bank. This forms part of the council’s fixed term cash deposits and so will earn some

interest in the usual way however, the Bank confirms that it will use these funds to support its Green Bond Purchase Programme which is an initiative whereby monies are used to invest in a variety of projects which support the environment such as tree plantation, renewable energy schemes and water waste management activities.

8. RISK MANAGEMENT

- 8.1 The council faces significant different types and degrees of risk in undertaking its treasury management function, from both internal and external sources. However, the council has implemented, and adheres to, strict policies and internal controls to mitigate such risks.
- 8.2 The council's primary objectives for the management of its investments are to give priority to the security and liquidity of its funds, before seeking the best rate of return. Most of its surplus cash is therefore held as short-term investments and utilises the UK Government and highly rated banks and pooled funds where appropriate.
- 8.3 The council's primary objective for the management of its debt is to ensure its long-term affordability. Most of its loans have therefore been borrowed from the Public Works Loan Board at long-term fixed rates of interest.
- 8.4 However, the combination of short duration investments and long duration debt can expose the council to the risk of falling investment income during periods of low interest rates. This risk is partially mitigated by holding some longer-term investments and reviewing the option to prematurely repay long-term loans.
- 8.5 The council's lending & borrowing list is regularly reviewed during the financial year. Credit ratings of counter parties are monitored throughout the year. All lending/borrowing transactions are within approved limits and with approved institutions. Investment and borrowing advice is provided by Treasury Management consultants, Arlingclose.
- 8.6 The CIPFA Treasury Management in the Public Services: Code of Practice requires the council nominate a committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies. The Audit Committee carries out this scrutiny.

9. EQUALITY IMPLICATIONS

- 9.1 Not applicable, this report is for information only.

10. CORPORATE IMPLICATIONS

- 10.1 Treasury management is an integral part of the council's wider financial strategies.

11. OPTIONS CONSIDERED

- 11.1 The council is required to undertake a treasury management function to support its financial affairs and there are many options within the component parts.

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APPENDICES:

- Appendix 1** Performance against Treasury Management Prudential Indicators
- Appendix 2** Performance of Non-Treasury Management commercial investments
- Appendix 3** External context provided by Arlingclose Ltd (treasury advisers)
- Appendix 4** Summary Guide to Credit Ratings
- Appendix 5** Glossary of Terms
- Appendix 6** Revisions to CIPFA Codes

BACKGROUND PAPERS:

Treasury Management Strategy 2021/22, Executive & Council – February 2021

Appendix 1: Performance against Treasury Management Prudential Indicators

Prudential Indicators: 'Prudential' Code

- 1.1 The Prudential Code was updated in 2017 following consultation with local authorities to improve the transparency of investment decisions. Changes to the Code include the requirement to produce a capital strategy, and the inclusion of prudential indicators within the report, to allow the reader to understand how overall debt levels link with the capital programme and investment decisions, and how this debt will be repaid.
- 1.2 The following Treasury Management prudential indicators were set in the Treasury Management Strategy for 2021/22. The limits are shown below, together with the actual indicators for 2021/22.

Affordable borrowing limit / Authorised limit

- 1.3 The council is legally obliged to set an affordable borrowing limit (also termed the 'authorised limit' for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the affordable limit.
- 1.4 The council approved the following authorised limit for its total external debt gross of investments for 2021/22. This limit separately identifies borrowing from other long-term liabilities, such as finance leases or lease premium incentives. The actual level of external debt is shown and is well within the limits set at the start of the year.

Authorised Limit for External Debt	2021/22 Limit £m	2021/22 Actual £m
Borrowing – NSC	204.0	155.3
Other Long-Term Liabilities (Avon debt, leases, temporary borrowing etc)	30.0	22.1
Authority Total	234.0	177.4

- 1.5 The council also approved the following operational boundary for external debt for the same period. The operational boundary for external debt was based on the same estimates as the authorised limit, but reflected estimates of the most likely, prudent, but not worst-case scenario, without the additional headroom included within the authorised limit to allow for unusual cash movements. As can be seen below, the actual level of external debt is well within the operational boundary set at the start of the year.

Operational Limit for External Debt	2021/22 Limit £m	2021/22 Actual £m
Borrowing – NSC	194.0	155.3
Other Long-Term Liabilities (Avon debt, leases etc)	30.0	22.1
Authority Total	224.0	177.4

Treasury Management Indicators: 'Treasury Code'

Interest rate exposures

- 1.6 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. The analysis will also inform whether new borrowing is taken out at fixed or variable interest rates.

Maturity structure of borrowing

- 1.7 This indicator applies to the financial years 2019/20-2021/22. Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment. This indicator is set to control the council's exposure to refinancing risk. These limits are shown below, together with the actual percentage of borrowing that is maturing in each period.

Maturity Structure of Borrowing	Upper Limit	Lower Limit	Actual 2021/22	Complied?
Under 12 months	50%	0%	4.27%	Yes
12 months and within 24 months	30%	0%	5.34%	Yes
24 months and within 5 years	40%	0%	14.79%	Yes
5 years and within 10 years	50%	0%	22.20%	Yes
10 years and above	100%	0%	53.40%	Yes

Principal sums invested for periods longer than 364 days

- 1.8 The purpose of this indicator is to control the council's exposure to the risk of incurring losses by seeking early repayment of its investments. The total principal sums invested to final maturities beyond the period end are shown below. The council is required to set a maximum amount to be invested beyond the end of the financial year for the forthcoming financial year and the following two years.

Principal sums invested for periods longer than 364 days	2020/21 £m	2021/22 £m	2022/23 £m
Upper Limit of Principal sums invested beyond the year	60	60	60
Actual principal sums invested beyond one year	10	10	N/A
Complied?	Yes	Yes	N/A

Appendix 2: Performance of Non-Treasury Management commercial investments

- 2.1 The council's commercial investments provided net income of £0.4m in 2021/22, a positive variance compared to budget. Net income from commercial investments for the year 2020/21 was £0.1m.

Property held for investment – Net return compared to budget (£)

Property	Budget 2020/21 £m	Out-turn 2020/21 £m	Budget 2021/22 £m	Out-turn 2021/22 £m
North Worle District Centre	-0.6	-0.6	-0.6	-0.6
Sovereign Centre	0.3	0.3	0.2	0.0
Fees	0.2	0.2	0.2	0.2
Total (income) / expenditure	-0.1	-0.1	-0.2	-0.4

- 2.2 The council's commercial investments provided a yield / return on investment of 0.2% in 2021/22, is the same as recorded in 2020/21.

Property held for investment – Net return compared to budget (Yield)

Property	Budget 2020/21 £m	Out-turn 2020/21 £m	Budget 2021/22 £m	Out-turn 2021/22 £m
North Worle District Centre				
- Net return	-0.6	-0.6	-0.6	-0.6
- Cost	40.2	40.2	40.2	40.2
- (Return) / Loss on investment	-1.5%	-1.5%	-1.5%	-1.5%
Sovereign Centre				
- Net return	0.3	0.3	0.2	0.0
- Cost	21.0	21.0	21.0	21.0
- (Return) / Loss on investment	1.4%	1.4%	1.0%	0.0%
Fees	0.2	0.2	0.2	0.2
Total (Return) / Loss on all investments	-0.2%	-0.2%	-0.3%	-0.7%

Appendix 3: External context provided by Arlingclose Ltd (treasury advisers)

- 3.1. **Economic background:** The continuing economic recovery from coronavirus pandemic, together with the war in Ukraine, higher inflation, and higher interest rates were major issues over the period.
- 3.2. The Bank of England (BoE) held Bank Rate at 0.1% at the beginning of the reporting period. April and May saw the economy gathering momentum as the shackles of the pandemic restrictions were eased. Despite the improving outlook, market expectations were that the Bank of England would delay rate rises until 2022. Rising, persistent inflation changed that.
- 3.3. UK CPI was 0.7% in March 2021 but thereafter began to steadily increase. Initially driven by energy price effects and by inflation in sectors such as retail and hospitality which were re-opening after the pandemic lockdowns, inflation then was believed to be temporary. Thereafter price rises slowly became more widespread, as a combination of rising global costs and strong demand was exacerbated by supply shortages and transport dislocations. The surge in wholesale gas and electricity prices led to elevated inflation expectations. CPI for February 2022 registered 6.2% year on year, up from 5.5% in the previous month and the highest reading in the National Statistic series. Core inflation, which excludes the more volatile components, rose to 5.2% y/y from 4.4%.
- 3.4. The government's jobs furlough scheme insulated the labour market from the worst effects of the pandemic. The labour market began to tighten and demand for workers grew strongly as employers found it increasingly difficult to find workers to fill vacant jobs. Having peaked at 5.2% in December 2020, unemployment continued to fall and the most recent labour market data for the three months to January 2022 showed the unemployment rate at 3.9% while the employment rate rose to 75.6%. Headline 3-month average annual growth rate for wages were 4.8% for total pay and 3.8% for regular pay. In real terms, after adjusting for inflation, total pay growth was up 0.1% while regular pay fell by 1.0%.
- 3.5. With the fading of lockdown – and, briefly, the 'pingdemic' – restraints, activity in consumer-facing sectors improved substantially as did sectors such as oil and mining with the reopening of oil rigs but materials shortages and the reduction in the real spending power of households and businesses dampened some of the growth momentum. Gross domestic product (GDP) grew by an upwardly revised 1.3% in the fourth calendar quarter of 2021 according to the final estimate (initial estimate 1.0%) and took UK GDP to just 0.1% below where it was before the pandemic. The annual growth rate was revised down slightly to 7.4% (from 7.5%) following a revised 9.3% fall in 2020.
- 3.6. Having increased Bank Rate from 0.10% to 0.25% in December, the Bank of England hiked it further to 0.50% in February and 0.75% in March. At the meeting in February, the Monetary Policy Committee (MPC) voted unanimously to start reducing the stock of its asset purchase scheme by ceasing to reinvest the proceeds from maturing bonds as well as starting a programme of selling its corporate bonds.
- 3.7. In its March interest rate announcement, the MPC noted that the invasion of Ukraine had caused further large increases in energy and other commodity prices, with the expectation that the conflict will worsen supply chain disruptions around the world and push CPI inflation to around 8% later in 2022, even higher than forecast only a month before in the February Monetary Policy Report. The Committee also noted that although GDP in January was stronger than expected with business confidence

holding up and the labour market remaining robust, consumer confidence had fallen due to the squeeze in real household incomes.

- 3.8. GDP growth in the euro zone increased by 0.3% in calendar Q4 2021 following a gain of 2.3% in the third quarter and 2.2% in the second. Headline inflation remains high, with CPI registering a record 7.5% year-on-year in March, the ninth successive month of rising inflation. Core CPI inflation was 3.0% y/y in March, was well above the European Central Bank's target of 'below, but close to 2%', putting further pressure on its long-term stance of holding its main interest rate of 0%.
- 3.9. The US economy expanded at a downwardly revised annualised rate of 6.9% in Q4 2021, a sharp increase from a gain of 2.3% in the previous quarter. In its March 2022 interest rate announcement, the Federal Reserve raised the Fed Funds rate to between 0.25% and 0.50% and outlined further increases should be expected in the coming months. The Fed also repeated its plan to reduce its asset purchase programme which could start by May 2022.
- 3.10. **Financial markets:** The conflict in Ukraine added further volatility to the already uncertain inflation and interest rate outlook over the period. The Dow Jones started to decline in January but remained above its pre-pandemic level by the end of the period while the FTSE 250 and FTSE 100 also fell and ended the quarter below their pre-March 2020 levels.
- 3.11. Bond yields were similarly volatile as the tension between higher inflation and flight to quality from the war pushed and pulled yields, but with a general upward trend from higher interest rates dominating as yields generally climbed.
- 3.12. The 5-year UK benchmark gilt yield began the quarter at 0.82% before rising to 1.41%. Over the same period the 10-year gilt yield rose from 0.97% to 1.61% and the 20-year yield from 1.20% to 1.82%
- 3.13. The Sterling Overnight Rate (SONIA) averaged 0.39% over the quarter.
- 3.14. **Credit review:** In the first half of FY 2021-22 credit default swap (CDS) spreads were flat over most of period and are broadly in line with their pre-pandemic levels. In September spreads rose by a few basis points due to concerns around Chinese property developer Evergrande defaulting but then fell back. Fitch and Moody's revised upward the outlook on a number of UK banks and building societies on the council's counterparty to 'stable', recognising their improved capital positions compared to 2020 and better economic growth prospects in the UK.
- 3.15. Fitch also revised the outlook for Nordea, Svenska Handelsbanken and Handelsbanken plc to stable. The agency considered the improved economic prospects in the Nordic region to have reduced the baseline downside risks it previously assigned to the lenders.
- 3.16. The successful vaccine rollout programme was credit positive for the financial services sector in general and the improved economic outlook meant some institutions were able to reduce provisions for bad loans. However, in 2022, the uncertainty engendered by Russia's invasion of Ukraine pushed CDS prices modestly higher over the first calendar quarter, but only to levels slightly above their 2021 averages, illustrating the general resilience of the banking sector.
- 3.17. Having completed its full review of its credit advice on unsecured deposits, in September Arlingclose extended the maximum duration limit for UK bank entities on

its recommended lending list from 35 days to 100 days; a similar extension was advised in December for the non-UK banks on this list. As ever, the institutions and durations on the council's counterparty list recommended by Arlingclose remains under constant review.

Appendix 4: Summary Guide to Credit Ratings

Rating	Details
AAA	Highest credit quality – lowest expectation of default, which is unlikely to be adversely affected by foreseeable events.
AA	Very high credit quality - expectation of very low default risk, which is not likely to be significantly vulnerable to foreseeable events.
A	High credit quality - expectations of low default risk which may be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
BBB	Good credit quality - expectations of default risk is currently low but adverse business or economic conditions are more likely to impair this capacity.
BB	Speculative - indicates an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time.
B	Highly speculative - indicates that material default risk is present, but a limited margin of safety remains. Capacity for continued payment is vulnerable to deterioration in the business and economic environment.
CCC	Substantial credit risk - default is a real possibility.
CC	Very high levels of credit risk - default of some kind appears probable.
C	Exceptionally high levels of credit risk - default is imminent or inevitable.
RD	Restricted default - indicates an issuer that has experienced payment default on a bond, loan, or other material financial obligation but which has not entered bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, and which has not otherwise ceased operating.
D	Default - indicates an issuer that has entered bankruptcy filings, administration, receivership, liquidation, or other formal winding-up procedure, or which has otherwise ceased business.

Appendix 5: Glossary of Terms

Authorised Limit – the maximum amount of external debt at any one time in the financial year.

Bank Rate – the Bank of England base rate.

Capital Financing Requirement – financing needs of the council – i.e., the requirement to borrow.

CIPFA - the Chartered Institute of Public Finance and Accountancy. The institute is one of the leading professional accountancy bodies in the UK and the only one which specialises in the public sector. It is responsible for the education and training of professional accountants and for their regulation through the setting and monitoring of professional standards. Uniquely among the professional accountancy bodies in the UK, CIPFA has responsibility for setting accounting standards for a significant part of the economy, namely local government. CIPFA's members work, in public service bodies, in the national audit agencies and major accountancy firms.

CLG – Communities and Local Government – see MHCLG.

Counterparty – the organisation the council is investing with.

Credit Rating – an assessment of the credit worthiness of an institution.

Creditworthiness – a measure of the ability to meet debt obligations.

Finance Lease - a finance lease is a lease that is primarily a method of raising finance to pay for assets, rather than a genuine rental. The latter is an operating lease. The key difference between a finance lease and an operating lease is whether the lessor (the legal owner who rents out the assets) or lessee (who uses the asset) takes on the risks of ownership of the leased assets. The classification of a lease (as an operating or finance lease) also affects how it is reported in the accounts.

Gilts – long term fixed income debt security (bond) issued by the UK Government and traded on the London Stock Exchange.

LIBID – London Interbank BID Rate – the interest rate at which London banks are willing to borrow from one another.

MHCLG – Ministry of Housing, Communities and Local Government. The Government department that sets policy on supporting local government, communities and neighbourhoods, regeneration, housing, planning building and the environment and fire. The name for this Government department has recently changed and is now known as **DLUHC**, which is the **Department for Levelling Up, Housing and Communities**.

Minimum Revenue Provision - the minimum amount which must be charged to an authority's revenue account each year and set aside towards repaying borrowing.

Money Market - the market in which institutions borrow and lend.

Money Market Rates – interest rates on money market investments.

Ninety-One – one of the council’s cash managers who invest in multi-asset funds. They were previously known as Investec.

Operational Boundary – the most likely, prudent but not worst-case scenario of external debt at any one time.

Pooled Funds – investments are made with an organisation who pool together investments from other organisations and apply the same investment strategy to the portfolio. Pooled fund investments benefit from economies of scale, which allows for lower trading costs per pound, diversification, and professional money management.

Prudential Code – a governance procedure for the setting and revising of prudential indicators. Its aim is to ensure, within a clear framework, that the capital investment plans of the council are affordable, prudent, and sustainable and that treasury management decisions are taken in accordance with good practice.

Prudential Indicators – indicators set out in the Prudential Code that calculates the financial impact and sets limits for treasury management activities and capital investment.

PWLB (Public Works Loans Board) - a central government agency which provides long and medium-term loans to local authorities at interest rates only slightly higher than those at which the Government itself can borrow. Local authorities can borrow to finance capital spending from this source.

Sovereign – the countries the council can invest in.

Tradition UK Ltd – is one of the council’s cash managers who manage £10m of investments on our behalf. Tradition place funds in fixed term cash deposits with a range of financial institutions.

Treasury Management – the management of the council’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risk associated with those activities and the pursuit of optimum performance with those risks.

Treasury Management Practices – schedule of treasury management functions and how those functions will be carried out.

Variable Net Asset Value money market funds – the principal invested may fluctuate below that invested.

Appendix 6: Revision to CIPFA Codes

6.1. Revisions to CIPFA Codes

- 6.2. In August 2021 HM Treasury significantly revised guidance for the PWLB lending facility with more detail and 12 examples of permitted and prohibited use of PWLB loans. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.
- 6.3. CIPFA published its revised Prudential Code for Capital Finance and Treasury Management Code on 20th December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments.
- 6.4. The principles of the Prudential Code took immediate effect although local authorities could defer introducing the revised reporting requirements until the 2023/24 financial year if they wish. Due to the absence of guidance, the council is waiting until 2023/24 to introduce the revised reporting requirements.
- 6.5. To comply with the Prudential Code, authorities must not borrow to invest primarily for financial return. This Code also states that it is not prudent for local authorities to make investment or spending decision that will increase the CFR unless directly and primarily related to the functions of the authority. Existing commercial investments are not required to be sold; however, authorities with existing commercial investments who expect to need to borrow should review the options for exiting these investments.
- 6.6. Borrowing is permitted for cashflow management, interest rate risk management, to refinance current borrowing and to adjust levels of internal borrowing. Borrowing to refinance capital expenditure primarily related to the delivery of a local authority's function but where a financial return is also expected is allowed, provided that financial return is not the primary reason for the expenditure. The changes align the CIPFA Prudential Code with the PWLB lending rules.
- 6.7. Unlike the Prudential Code, there is no mention of the date of initial application in the Treasury Management Code. The TM Code now includes extensive additional requirements for service and commercial investments, far beyond those in the 2017 version.
- 6.8. The council will follow the same process as the Prudential Code, i.e., delaying changes in reporting requirements to the 2023/24 financial year.

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