



# SOMERSET COUNTY COUNCIL **STATEMENT OF ACCOUNTS** 2014/15



**AUDITED & APPROVED ACCOUNTS**



K.B.Nacey CPFA  
Director - Finance and Performance  
County Hall, Taunton, Somerset TA1 4DY

[WWW.SOMERSET.GOV.UK](http://WWW.SOMERSET.GOV.UK)





## Contents

Note No.		Page
	Chief Financial Officer's Introduction	1
	Statement of Responsibilities	9
	Independent Auditor's Report to Members of Somerset County Council	10
	Annual Governance Statement 2014/15	14
	Statement of Accounting Policies	28
	Movement in Reserves Statement	45
	Balance Sheet	47
	Comprehensive Income and Expenditure Statement	49
	Cash Flow Statement	50
	<b>Notes to the accounts:</b>	
1	Prior Period adjustments	51
2	Accounting Standards that have been issued but have not yet been adopted	54
3	Critical judgements in applying Accounting Policies	55
4	Assumptions made about the future and other major sources of estimation uncertainty	56
5	Events after the Balance Sheet Date	58
6	Adjustments between Accounting Basis and Funding Basis under Regulation	59
7	Transfers to/from Earmarked Reserves	61
8	Analysis of our spending on services	62
9	Amounts Reported for Resource Allocation Decisions	64
10	Other Operating Expenditure	68
11	Financing and Investment Income and Expenditure	68
12	Taxation and Non Specific Grant Income	68
13	Surplus or deficit on revaluation of fixed assets	69
14	Trading Operations	69
15	Pooled Budgets	70
16	Members' Allowances	71
17	Senior Officers' Remuneration	72
18	Termination Benefits	76
19	External Audit Fees	77
20	Dedicated Schools Grant	77
21	Government Grant Income	78
22	Partnerships and Related Party Transactions	79
23	Property Plant and Equipment	80
24	Intangible Assets	84
25	Impairment Losses	84
26	Assets Held for Sale	85
27	Leases	85
28	Private Finance Initiatives (PFI) and Similar Contracts	89
29	Heritage Assets – 5 year summary of transactions	91
30	Heritage Assets – Further information on our Museum collections	91

31	Financial Instruments:	
	- Short-term/ long-term investments	96
	- Long Term Debtors	97
	- Short-term/ long-term borrowing	97
32	Nature and extent of risks arising from financial instruments	97
33	Inventories	102
34	Short Term debtors	102
35	Short Term creditors	102
36	Other long term liabilities	103
37	Provisions	103
38	Revenue and Capital Grants/Contributions Receipt in Advance	104
39	Usable Reserves	105
40	Unusable Reserves	106
41	Cash and Cash Equivalents	111
42	Cash Flow – Operating activities	111
43	Cash Flow – Investing activities	112
44	Cash Flow – Financing activities	112
45	Capital Expenditure and Capital Financing	113
46	Contingent Liabilities	114
47	Trust Funds	114
48	Pension Schemes	115
	Group Accounts	124
	Pension Fund	157
	Glossary of Terms	158

# Chief Financial Officer's introduction

**This section highlights some of the most important matters reported in the accounts and comments on any issues that have had a major effect on our finances.**

## Introduction

The annual Statement of Accounts sets out a summary of our financial affairs for 2014/15 and shows our financial position as at 31 March 2015. It includes the following statements and accounts:

- Movement in Reserves Statement;
- Balance Sheet;
- Comprehensive Income and Expenditure Statement;
- Cash Flow statement;
- Group accounts;
- Pension fund accounts.

An explanation of each of these statements is included within the statement itself. We use some technical terms in these accounts, which we have explained in the glossary on page 158.

## Important developments this year

### Financial Context

Nationally, 2014/15 was a relatively stable year for the Local Government sector with no significant changes in funding mechanisms or responsibilities. The main focus therefore remained on mitigating the continued austerity measures which reduced the Council's core revenue funding by 8.3%. Locally, the most significant issues affecting Somerset was the impact of the previous years flooding and the outcome of the Ofsted inspection. These are covered in more detail below.

### Flooding

During the winter of 2013/14 unprecedented levels of flooding occurred across the Somerset Levels and severely impacted communities within the flooded areas and beyond. The floods reached critical levels and the impact for the communities was so significant that a major incident was called, which invoked joint working with the Police, Military, Environment Agency and District Councils, led by a joint command. Although the financial cost was not significant during 2013/14 there are considerable costs for both recovery and preventative works during 2014/15. The amount shown in the Comprehensive Income and Expenditure Account (page 49) is mainly in Central Services to the Public – Emergency Planning and Highways and Transport Services – Environmental Safety & Routine Maintenance. The increase of capital expenditure can be seen within the Additions element of the Infrastructure Assets in note 23 (page 81).

### Ofsted

Somerset's services for children in need of help and protection, children looked after and care leavers were inspected by Ofsted in January/February and were judged to be 'inadequate' overall. Subsequently the DfE has appointed the Director of Children's Services of Essex County Council and his team to work with Somerset during the next stage of its improvement journey. This approach is expected to provide greater expertise and professional challenge, enable bespoke solutions and encourage innovation and fresh thinking to facilitate

improvement. A priority action plan concentrating on the nine immediate Children's Improvement priorities has been implemented and this will be monitored by the Somerset Operational Improvement Group in addition to the existing performance reports to the Children and Young People's Improvement Board. Senior managers are completing the detailed assessment of the financial implications and resources required to deliver the planned improvements.

## **Accounting for Schools**

Over the past few years there have been inconsistencies with the accounting treatment of schools across the country which has sparked debate on accounting for schools and whether schools transactions and assets should be shown in the Council's accounts or not. This year CIPFA has provided additional regulation within The Code of Practice and issued Technical Information Note 14 (01) and LAAP Bulletin 101 as additional guidance to help support a more consistent approach to how schools transactions and assets should be accounted for. Our interpretation of the changes has resulted in us formally reviewing all of the arrangements for maintained schools within Somerset County Council's boundary and the individual treatment for each arrangement grouping can be found in our Accounting Policy for Schools on page 40. Due to the de-recognition of some previously recognised Schools Non-Current Assets we are also disclosing by way of a Prior-Period Adjustment the impact on our accounts on page 51.

## **Schools converting to Academy status**

Somerset schools have continued to opt to transfer to Academy status. During the year eleven schools transferred with a further four applying to transfer in the future. These transfers continue to have an impact upon our accounting position, however academy conversions do not affect our ability to deliver services or the funding allocated to services.

## **Heritage Trust**

On 1<sup>st</sup> November 2014 Somerset County Council transferred its Heritage Services to a new independent not-for-profit charitable trust, South West Heritage Trust. The trust has been set up to deliver Archives, Museums and Historic Environment services on behalf of the council and Archives services for Devon County Council. As part of this transfer Property, Plant & Equipment on the Balance Sheet has reduced by £0.433m. The cost of providing these services is still shown in Cultural and Related Services in the Comprehensive Income & Expenditure Account on page 49.

## **Revenue spending in 2014/15**

In February 2014, we agreed our budget for 2014/15 at £326.2 million. This resulted in a band-D council tax of £1,027.30, which is the same as in the past 6 years. The following table shows that our actual spending was £279.8 million against the budget of £326.2 million which includes transfers. These figures are based on service responsibilities, rather than the total cost of providing services (including charges for support services, using assets, and adjustments to show the true cost of providing pensions to employees), which is used in the income and expenditure account on page 49.

**Table 1: Comparison of actual spend against budget**

Service	2014/15 budget £millions	2014/15 actual spend £millions	Difference £millions	%
Adults & Health - Operations	85.1	88.5	3.4	4.0
Children & Families - Operations	41.4	46.6	5.2	12.6
Learning Disabilities - Operations	28.7	28.4	-0.3	-1.0
Somerset Waste Partnership	26.1	26.0	-0.1	-0.4
Adults & Health - Commissioner	18.9	18.5	-0.4	-2.1
Children & Learning - Commissioning	24.7	21.3	-3.4	-13.8
Schools	20.2	-1.2	-21.4	-105.9
Public Health	2.6	1.4	-1.2	-46.2
Highways & Traffic Management	35.1	23.5	-11.6	-33.0
Transporting Somerset - Public, FE & Concessionary	12.6	12.2	-0.4	-3.2
Other Direct Services	12.8	11.0	-1.8	-14.1
Support Services & Trading Units	46.1	41.6	-4.5	-9.8
	<b>354.3</b>	<b>317.8</b>	<b>-36.5</b>	<b>-10.3</b>
Non-service items and in year funding surplus (costs such as bank charges that cannot be linked to a particular service)	22.0	-38.0	-60.0	-272.7
	<b>376.3</b>	<b>279.8</b>	<b>-96.5</b>	<b>-25.6</b>
Transfer to or from (-):				
the carry-forward fund	-43.8	23.3	67.1	
revenue reserves which we have set aside	-2	17.7	19.7	
the capital fund	0.5	3.6	3.1	
general reserves	-4.8	2	6.8	
	<b>326.2</b>	<b>326.4</b>	<b>0.2</b>	
Funded by:				
Revenue Support Grant	-76.1	-76.1	0	
Business Rates	-60.8	-61.0	-0.2	
Council Tax	-189.3	-189.3	0	
	<b>-326.2</b>	<b>-326.4</b>	<b>-0.2</b>	

## Carry forward fund

Services are allowed to spend up to their approved budgets. In 2014/15, this was £326.2 million. If services do not spend up to the value of their budgets they can request to use amounts in future years, this is called the 'carry forward fund'. Services also have other reserves, which they have set aside for certain purposes. In addition, some spending (for items outside our services' control) is funded from general reserves. For more analysis of the movements within our earmarked reserves see Note 7 in the main Statement of Accounts.

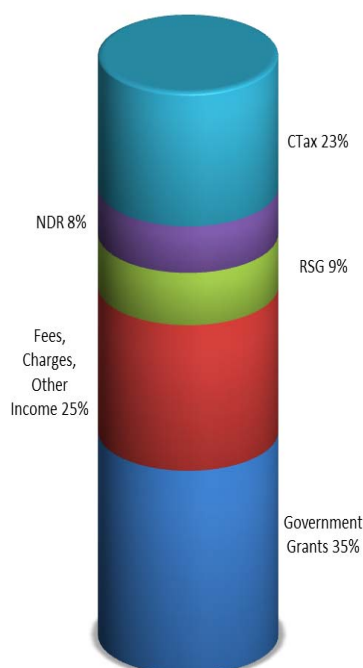
Of the £24.717 million total carried forward in 2014/15, £22.049 million is for individual school budgets and cannot be used for anything else. This is an increase of £3.962 million over the previous year and is due mainly to the inclusion in 2013/14 of the Central Schools overspend which has been excluded in 2014/15. The other £2.668 million relates to carry forwards for particular services net of in year overspends.

## Financing

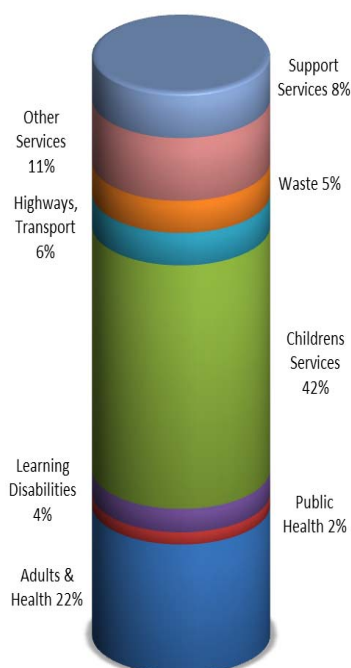
The diagrams below show where our money came from, which services we spent it on and how we spent it. It is important to note that the contribution from the local community through the Council Tax represents just 23% of our funding needs.

## Analysis of total revenue spending (£815 million)

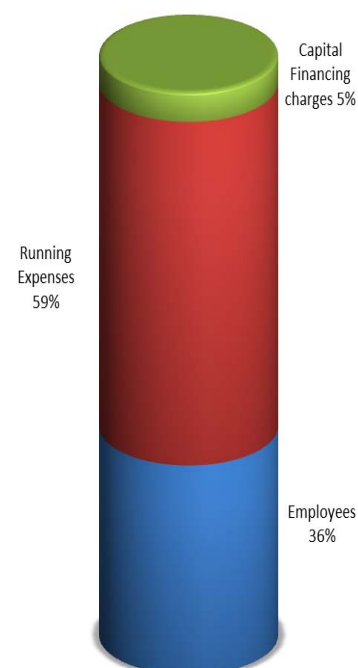
### Where the money came from



### Which services we spent it on



### How we spend this



## Capital spending in 2014/15

Alongside our day-to-day costs, we spend money on assets such as buildings, roads, vehicles and information and communications technology. This is capital spending. During 2014/15 our capital spending was £94.178m (65.291m in 2013/14). Of this we spent £23.757m on schools. We spent £40.412 on the county highways and transport infrastructure. The following table gives more detail on how we spent this money;

**Table 2: Major Capital Schemes**

Scheme		2014/15	
		£millions	£millions
<b>Children and Education Services</b>	Penrose School	1.829	
	Free School Meals	2.169	
	Willowdown Primary School	3.856	
	Improvements to facilities to support Special Educational Needs including Autism	2.731	
	Provision of sufficient school places	3.892	
	General improvements to schools and other assets associated with the delivery of education	9.280	
			23.757
<b>Infrastructure</b>	New road schemes to relieve congestion in Taunton	7.268	
	Flood recovery highways schemes	5.485	
	Structural improvements to bridges	1.625	
	Structural improvements to roads	23.243	
	Street lighting LED replacement	1.129	
	Roads small improvement schemes	1.662	
			40.412
<b>Resources</b>	Refurbishment of County Hall		2.974
<b>Other</b>	Super fast broadband	19.120	
	Other projects	7.915	
			27.035
<b>Total capital spending</b>			<u>94.178</u>

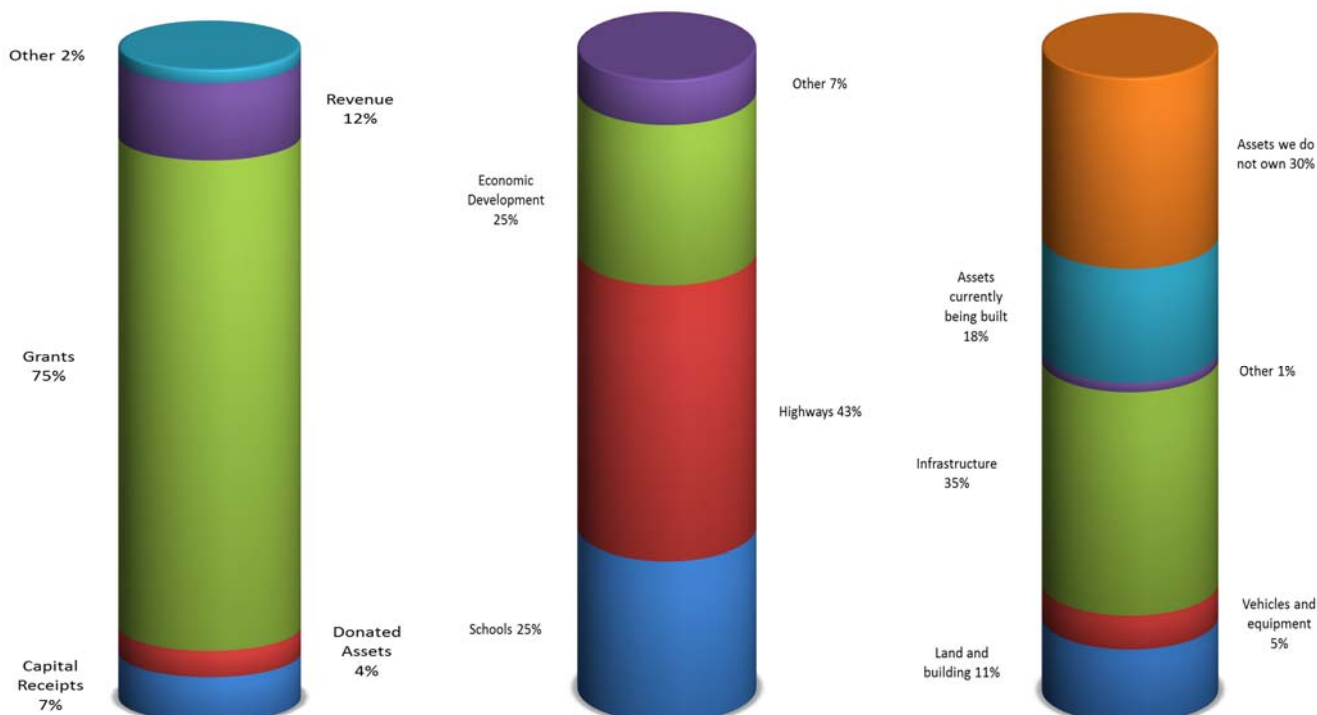
## Analysis of total capital spending

During 2014/15, our total capital spending of £94.178 million included £27.878 million on assets we do not own.

### Where the money came from

### Which services we spent it on

### How we spent this



## Borrowing facilities

Under the Prudential Code, we have set an authorised limit against which our external borrowing is monitored and managed. For 2014/15, the total approval was £400 million (next year's approval is £441 million). On 31 March 2015, the amount we owed was £343.0 million (£351.4 million in 2013/14).

On 31 March 2014	Borrowing	On 31 March 2015
£millions		£millions
169.6	Public Works Loan Board (PWLB)	160.3
173.2	Other long-term loans	173.2
8.6	Other organisations investing in the Comfund (note 31)	9.5
<u>351.4</u>		<u>343.0</u>

In line with accounting practice, we must show the 'fair value' of our loans. The fair value of the PWLB loan is £238.382 million at 31 March 2015 (£203.211 million at 31 March 2014). The fair value of the other long-term loans is £267.194 million at 31 March 2015 (£198.484 million at 31 March 2014).

A review has been undertaken of the authority's debt financing. The debt maturity profile means that the next debt repayment is not due until 2023/24. However, the authority must ensure that it is setting aside sufficient funds to meet the repayments as they fall due. During

the interim period the funds set aside can be invested, but currently the restricted financial market in which we operate provides a very poor return. We have therefore reduced the value set aside each year so that the amount required for each debt repayment is achieved closer to the time it is required rather than significantly earlier.

## Usable Reserves

On 31 March we had the following reserves available:

On 31 March 2014	Reserves	On 31 March 2015
£millions		£millions
23.0	Capital reserves	23.8
11.4	Capital Grants/Contributions Unapplied Reserves	12.2
10.2	Revenue reserves set aside for capital	13.8
24.8	Other revenue reserves which we have set aside	41.9
18.1	Schools' carry-forward fund	23.4
22.6	Services' carry-forward fund	1.3
31.9	General reserves (see the note below)	25.7
<u>142.0</u>		<u>142.1</u>

General reserves represent just 7.9% of the 2014/15 budget. This shows that we need to continue to operate within very strict financial limits.

## Looking ahead to 2014/15 and the future

### Economic outlook

The UK economy continues to struggle with inflation turning negative and forecast to remain well below the government target of 2% for some time. GDP slowed to 0.3% and imports outweighed exports throughout 2014/15 leading to a particularly sluggish economic start to the 2015. The housing market continues to be buoyant with high demand driven by low interest rates. Therefore house prices continue to increase faster than wages although pay is now growing at its fastest rate for nearly four years. Unemployment in the UK continues to fall and is well below the 7% 'trigger' the Bank of England indicated would lead to increases in interest rates.

The single most important reason for below-target inflation has been the sharp drop in energy prices. In March, oil was around 40% cheaper than in the middle of last year and the price of petrol at the pump has fallen by more than a tenth. Food prices have also dropped, and sterling's appreciation over the past two years has continued to depress import prices. However, inflation is expected to pick up notably towards the end of the year particularly across fuel and food prices.

### Austerity

Future funding levels dominated the debate in the run up to the May General election with both main parties outlining their plans to reduce the structural deficit. At present, there is no indication of future funding levels for 2016/17 or beyond. However in March the Chancellor announced that austerity would end a year earlier than previously forecast. This implies that funding reductions will be made at a faster rate and the presumption is that Revenue Support Grant will now disappear altogether by the end of 2018/19. Following the election, the new

Conservative government announced its intention to cut spending by a further £4½ billion in-year. This is expected to impact on local government and reaffirms that future funding cuts will be harsher than ever.

This means that local government funding is now less dependent upon central government support with local authorities able to create and retain more income through generating economic growth in their area. Through the creation of new businesses and new homes, the council is able to collect additional Business Rate and Council Tax income. However, local government shoulders much more of the risk in terms of variances in funding streams. To mitigate this, the Council entered into a Business Rates Pool along with Bath and North East Somerset, North Somerset, Sedgemoor, Mendip and South Somerset District Councils and Taunton Deane Borough Council. This should provide greater resilience to any economic variations and ultimately retain more Business Rates income locally.

### **Tackling the funding deficit**

The funding shortfall currently projected by the Council is £27m in 2016/17 and totals almost £90m across the five-year period. By this time, the Council is expecting to be self-financing, meaning it will be living within the funds it can raise locally.

We therefore have to review the services we provide and continually challenge the ways in which they are delivered. The Authority is currently investigating the following options for service delivery models:

#### Learning Disabilities

The Council and Clinical Commissioning Group believe that a social enterprise partnership would be the best way to ensure that:

- Customers and carers are at the heart of decision making
- Services are value based
- Profit should not be made from the delivery of services
- Change for customers and carers should be minimised
- Services should be accountable to the people who use them and their carers and relatives

In addition, this should ensure sustainability and the continuation of the things that customers and carers have told us that the Learning Disabilities Provider Service is already doing well.

#### Somerset Skills and Learning

Creating a not-for-profit company for Somerset Skills and Learning will provide the freedom to design and deliver a wider range of learning opportunities. The intention is to establish a Community Interest Company (CIC), as a Company Limited by Guarantee (CLG), and it will be owned by staff and run by a Board of Directors to enable it to be more flexible and able to act quickly to meet new areas of demand, accessing increased external funding / business opportunities.

#### Support Services for schools

A review has been undertaken to consider a range of business and management, professional and curriculum development and learner support services for schools and academies. The review has concluded that a multi-stage approach, potentially leading towards the development of an arms-length organisation operating on a fully traded basis, is the best solution. This would result in a self-financing service that would achieve the maximum benefit whilst minimising risk.

## Devolution

The new Government has set out a long-term agenda for economic and social reform with devolution being viewed as the most effective way to create jobs, build homes, strengthen healthy communities and protect the vulnerable in all parts of the country. Initial steps have been taken to devolve control in areas such as Greater Manchester which under its new mayor, controls £1bn of public money, and has powers over transport, housing, planning and policing, along with the creation of integrated health and social care services. Little is known about how this might be applied across other areas, particularly rural areas but the onus is with us to take control of our own destiny.

## **Summary**

To date, the Council has worked hard to save those services that people most value and have protected spending on social care for children and the elderly as far as possible. The Authority continues to work towards balancing the budget, maintaining adequate reserve balances to protect our financial position and minimise the impact on the delivery of services to the public.

## **Inspection and audit**

We made these accounts available for public inspection (from 6 July to 31 July) so that people who pay Council Tax and rates, and other members of the public, could ask the auditor any questions. This is a legal requirement, but my department will answer questions from anyone with an interest at any time. These accounts have been approved by our Audit Committee on 24 September 2015.



**Kevin Nacey CPFA**  
**Director - Finance and Performance**  
**(Chief Financial Officer)**  
24 September 2015

# Statement of Responsibilities

**This section explains our responsibilities for our financial affairs and how we make sure we carry out these responsibilities properly.**

## **Somerset County Council's Responsibilities**

The Authority is required to:

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

## **The Chief Financial Officer's Responsibilities**

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

In preparing this Statement of Accounts, the Chief Financial Officer has:

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

The Chief Financial Officer has also:

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

## **The Chief Financial Officer's Declaration**

This Statement of Accounts gives a true and fair view of the financial position of Somerset County Council as at 31 March 2015 and its income and spending for the year ending on that date.



**Kevin Nacey CPFA**  
**Director – Finance and Performance**  
**(Chief Financial Officer)**  
**Somerset County Council**  
24 September 2015

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOMERSET COUNTY COUNCIL**

We have audited the financial statements of Somerset County Council for the year ended 31 March 2015 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

This report is made solely to the members of Somerset County Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Director of Finance and Performance and auditor**

As explained more fully in the Statement of the Director of Finance and Performance's Responsibilities, the Director of Finance and Performance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

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

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the financial position of Somerset County Council as at 31 March 2015 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

### **Opinion on other matters**

In our opinion, the information given in the Chief Financial Officer's Introduction for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we report by exception**

We are required to report to you if:

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

- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

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

#### **Respective responsibilities of the Authority and the auditor**

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

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission in October 2014.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2014, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

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

#### **Basis for qualified conclusion**

In considering the Authority's arrangements for securing efficiency, economy and effectiveness we identified the following matter:

The publication of an inspection report by Ofsted dated August 2013 concluded that the overall arrangements for the Protection of Children in the Authority area were judged to be 'inadequate' and a follow up review by the Department for Education in July 2014 concluded that while progress was being made, there was still a significant amount of work to be done. A further inspection was carried out in January 2015 and Ofsted rated services as inadequate for children in need of help and protection, children looked after and care leavers.

This judgement is evidence of weaknesses in the arrangements of improving efficiency and productivity.

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2014, with the exception of the matter reported in the basis for qualified conclusion paragraph above, we are satisfied that in all significant respects, Somerset County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

**Delay in certification of completion of the audit**

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

Peter Barber  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton UK LLP  
Hartwell House  
55-61 Victoria Street  
Bristol BS1 6FT

30 September 2015

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOMERSET PENSION FUND**

We have audited the pension fund financial statements of Somerset Pension Fund for the year ended 31 March 2015 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Asset Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

This report is made solely to the members of Somerset Pension Fund, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Director of Finance and Performance and auditor**

As explained more fully in the Statement of the Director of Finance and Performance's Responsibilities, the Director of Finance and Performance is responsible for the preparation of the Authority's Statement of Accounts, which include the pension fund 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 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the pension fund financial statements**

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

### **Opinion on the pension fund financial statements**

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2015 and of the amount and disposition of the fund's assets and liabilities as at 31 March 2015; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

### **Opinion on other matters**

In our opinion, the information given in the Chief Financial Officer's introduction and the annual report for the financial year for which the pension fund financial statements are prepared is consistent with the pension fund financial statements.

Peter Barber  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton UK LLP  
Hartwell House  
55-61 Victoria Street  
Bristol  
BS1 6FT

30 September 2015

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOMERSET COUNTY COUNCIL**

### **Issue of audit opinion on the financial statements**

In our audit report for the year ended 31 March 2015 issued on 30 September 2015 we reported that, in our opinion, the financial statements:

- gave a true and fair view of the financial position of Somerset County Council as at 31 March 2015 and of its expenditure and income for the year then ended; and
- had been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

### **Issue of audit opinion on the pension fund financial statements**

In our audit report for the year ended 31 March 2015 issued on 30 September 2015 we reported that, in our opinion the pension fund's financial statements:

- gave a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2015 and the amount and disposition of the fund's assets and liabilities as at 31 March 2015; and
- had been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

### **Issue of qualified value for money conclusion**

In our audit report for the year ended 31 March 2015 issued on 30 September 2015 we reported a qualified value for money conclusion in the following terms:

#### **Basis of qualified conclusion**

In considering the Authority's arrangements for securing efficiency, economy and effectiveness we identified the following matter:

The publication of an inspection report by Ofsted dated August 2013 concluded that the overall arrangements for the Protection of Children in the Authority area were judged to be 'inadequate' and a follow up review by the Department for Education in July 2014 concluded that while progress was being made, there was still a significant amount of work to be done. A further inspection was carried out in January 2015 and Ofsted rated services as inadequate for children in need of help and protection, children looked after and care leavers.

This judgement is evidence of weaknesses in the arrangements of improving efficiency and productivity.

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2014, with the exception of the matter reported in the basis for qualified conclusion paragraph above, we are satisfied that in all significant respects, Somerset County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

## Certificate

In our report dated 30 September 2015 we explained that we could not formally conclude the audit on that date until consideration of matters brought to our attention by local government electors had been completed. These matters have now been dealt with. No matters have come to our attention since that date that would have a material impact on the financial statements on which we gave an unqualified opinion or a significant impact on our conclusion on the authority's arrangements for securing economy, efficiency and effectiveness.

We certify that we have completed the audit of the financial statements of Somerset County Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

A handwritten signature in black ink, appearing to read 'Peter Barber', with a large, stylized 'P' and a checkmark-like flourish at the end.

Peter Barber  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Hartwell House  
55-61 Victoria Street  
Bristol  
BS1 6FT

21 January 2016

# Annual Governance Statement (2014/15)

**This section gives the results of our yearly assessment of how well we are managing and controlling risks to achieve our aims and meet the responsibilities we have by law.**

## Responsibility

We are responsible for making sure that we:

- carry out our business in line with the law and proper standards;
- protect public money and account for it properly; and
- use public money economically, efficiently and effectively.

We also have a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which functions are exercised, having regard to a combination of **economy, efficiency and effectiveness**. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and the management of risk.

We are required under Regulation 4(2) of the Accounts and Audit (England) Regulations 2011 to conduct a review at least once a year of the effectiveness of our system of internal control and include a statement reporting on the review with any Statement of Accounts. Regulation 4(3) of the Accounts and Audit (England) Regulations 2011 requires that for a local authority in England the statement is an Annual Governance Statement. The review of internal controls provides additional assurance that the Statement of Accounts gives a true and fair view of the authority's financial position at the reporting date and its financial performance during the year.

Somerset County Council has an agreed code of corporate governance, which is consistent with the principles of the Chartered Institute of Public Finance and Accounting (CIPFA) and the Society of Local Authority Chief Executives and Senior Managers (SOLACE) Framework *Delivering Good Governance in Local Government*. A copy of these documents can be obtained from Martin Gerrish, Strategic Manager – Finance Governance at [mgerrish@somerset.gov.uk](mailto:mgerrish@somerset.gov.uk).

The preparation and publication of an Annual Governance Statement in accordance with the principles set out in *Delivering Good Governance in Local Government* meets our statutory requirement.

## The purpose of the governance framework

The governance framework comprises the **systems** and **processes**, and **culture** and **values**, by which the authority is directed and controlled and through which it accounts to, engages with and leads the community. It enables the authority to set its strategic objectives, monitor their achievement and consider whether they have led to the delivery of appropriate, cost-effective services.

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

assurance. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Somerset County Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised. It ensures they are managed efficiently, effectively and economically.

The governance framework has been in place at Somerset County Council for the whole of the year ended 31 March 2015 and up to the date of approval of the Statement of Accounts. The County Council continually seeks to improve its governance arrangements, and evidence of continued "best practice" are found within the governance reviews referred to below.

## **The governance framework**

In June 2011 the County Council revised its formal code of corporate governance ensuring that it conformed with guidance provided by CIPFA and SOLACE. This Code is reviewed annually by the officer Governance Board and the Section 151 Officer and is agreed as still fit for purpose. This describes how Somerset County Council discharges its responsibilities for putting in place proper arrangements for the governance of its affairs, incorporating the **six core principles** identified by CIPFA/SOLACE. The framework we have in place to ensure we adhere to the code is described in more detail below.

### **Core Principle 1: Somerset County Council aims to focus on its purpose and on outcomes for the community, creating and implementing a vision for the local area with partners.**

Somerset County Council's Strategy is set out in the Somerset County Council Plan 2013-2017, which was approved by Full Council in November 2013. (A mid-term refresh is planned for summer 2015). This was adopted following a significant consultation exercise with partners and a number of public roadshows under the title "Listening. Learning. Changing". This consultation process will continue throughout the life of the Administration. The leadership remains very keen to engage directly with its staff through continued face-to-face presentations. The Plan clearly sets out (in plain English) the vision, the priorities and targets for the Council.

Underpinning the County Council Plan has been a number of fundamental decisions about the future provision and providers of a number of key services for the community. These serve to shape the vision of the County Council in the future. During 2014/15, Cabinet or individual Cabinet Members, (and Full Council where appropriate), have approved the Somerset Flood Action Plan, Social Value Policy, Libraries Service Review Programme, Support Services of Education, Future commissioning of care and support in extra-care housing schemes, Policies and Principles for Early Years and School Place Planning, Pay Policy Statement, Treasury Management Statement, Adoption of Somerset Minerals Plan, establishment of Somerset Growth Board, Heart of the South West LEP Economic Plan. In addition, other Committees have considered or approved Anti-Fraud and Corruption, Mental Health Strategy, Joint Strategic Needs Assessment, Clinical Commissioning Group 5 Year Strategy, Creation of Somerset Pensions Board.

Working with our partners is increasingly of importance in achieving our vision. The County Council understands, particularly with the reducing resources at its disposal, that this often represents the most effective delivery mechanism. Our positive relationship with the Local Enterprise Partnership, and their success in attracting significant funds for investment into the region, will be key in delivering a number of transport and infrastructure projects. With our Public Health statutory responsibilities and social care demands, we continue to work

closely with the National Health Service to improve the outcomes for residents, working towards integration of care and health services. With central government and a multitude of local partners, we have established the Somerset Rivers Authority in order to address flood risks and provide for future resilience in the County. We continue to work with Devon and other partners to roll out Superfast Broadband to rural areas across the County. During 2014/2015 we successfully transformed our (and Devon's) Heritage services into a standalone charitable Trust, which was celebrated with the return of the Alfred Jewel back to the Somerset Museum for a short period.

The Customer Access and Shared Assets [CASA] Project is one project under the Digital & Customer Services Programme Board which is delivering our Customer Access Strategy. In partnership with others this exciting project is delivering two customer access hubs – converting single service delivery points such as a library into multiple delivery points including Registrars, Children Services, District Services as well as VCSE and Commercial space. The outcomes are improved customer pathways, experience and reduced costs. CASA is very much part of our community development work.

The County Council is very aware that the overall financial position remains acute, and that there is still the need to take difficult financial decisions as a result of the widely trailed declining funding available in the future, and ever increasing demographic and statutory demands upon our services. This has communicated openly to all staff through such means as Core Brief, and by frequent Leader and Chief Executive meetings with staff .

The Medium Term Financial Plan (MTFP) remains the mechanism used to assess, forecast and plan resources to maximise delivery of the County Council Plan. It is a rolling process and is maintained throughout the year; priorities, resources, funding pressures, efficiencies and savings are developed and adjusted to reflect the most recent information. The main aim of the MTFP is straightforward - to forecast the Council's finances for the medium term in order to identify actions that will need to be taken to ensure priorities are funded and the Authority lives within its means. The MTFP and annual budgets were confirmed formally through the February democratic process. In February 2015, the Cabinet and Full Council also approved the Revenue Strategy 2016/17-2020/2021 and Capital Strategy 2016/17–2018/2019. A "2020 Vision" forward looking document was also appended to these papers to take a longer term view of the Council's sustainability.

Our processes for Strategic Financial Planning have again received a positive assessment from Grant Thornton as part of their Financial Resilience report to Audit Committee (January 2015). The County Council continues to seek innovative ways to support its financial standing, such as reviewing its Minimum Revenue Payment set aside, winning grants and agreeing partnership contributions for projects, by setting up an Income and Growth Board, and through the development of Strategic Sourcing Plans for major contracts.

The County Council has further improved its Medium Term Financial Plan following learning visits to other local authorities. We have improved our forward planning, given officers increased lead time for implementation and sought to maximise the value of our financial savings. This has been achieved by taking formal in-year savings decisions in advance of the next financial year. Significant funding and savings decisions continued to be informed by detailed Impact Assessments, and supported by appropriate consultations as necessary.

We continue to report performance of the Council quarterly to Cabinet through our Performance Wheel, which is also considered at the two Scrutiny Committees, and has also been taken to the Audit Committee with a particular focus on risk management

performance. The Wheel presents a rounded view of the overall performance of the Council together with highlighting areas of concern which may require action. Performance is monitored and managed through monthly reporting to SLT and regular report to Cabinet and Senior Leadership Team meetings.

During October 2014, the County Council hosted a Peer Review, with a visiting team drawn from other local authorities and the Local Government Association. In addition to core themes that are reviewed in all such Reviews, we asked them to look at our work on economic development and on commissioning. The Review's findings have recently been through Scrutiny. Whilst the Review did highlight some areas where the County Council might improve further, which have been incorporated into an Action Plan, it did comment that "the governance structure and arrangements in the council are felt to be sound".

(All the documents and decisions referred to in this response are publicised on our website, and formal decisions taken can be found on Cabinet meeting public agendas site).

**Core Principle 2: The County Council aims to engage with local people and other stakeholders to ensure robust public accountability.**

The Customer Insight Team within Customers and Communities has the lead for Consultation across all of Somerset County Council. The team has appointed a Consultation Manager and a Consultation Lead Officer to build central capacity for advising, supporting and overseeing all consultation across the authority. Protocols have been agreed for a formal sign-off process to ensure all consultation is robust, meets statutory requirements, reduces duplication and consultation overload. A consultation intention plan has been developed with services so that there is a co-ordinated and timely approach to all consultation which will ensure that the public have every opportunity to influence the decision making process.

A number of significant consultations have been undertaken in the last 12 months, including services such as Social Care Support within Extra-Care Housing, Libraries, Sexual Health Services, subsidised local bus services and Pharmaceutical Needs Assessment. The results of these and many other consultations have been published and have informed decisions on service changes which are currently being implemented. In addition, the council has undertaken a substantial survey at 6 monthly intervals seeking people's views about their satisfaction with the council and preferences regarding aspects of service delivery. Each survey consists of face to face interviews with 1,000 people which are carried out at a number of locations across the County.

Through the Somerset Intelligence Partnership (which comprises the County Council, all District Councils and more recently the Fire Service) the 'Somerset Intelligence' and 'Inform Somerset' websites have been developed. These contain a wealth of data and information about Somerset, its residents, and a wide range of council services. With over 60,000 page views last year this is an important tool in improving our accountability. SCC in 2014/15 also brought staff together to create a new Business Intelligence Function for the authority. This new Unit brings a renewed focus to evidence based commissioning, using data and intelligence to drive change and improvement as well as increase public accountability.

Your Somerset, the council newspaper continues to be delivered to all homes in Somerset.

To ensure effective dialogue with service users we are also implementing a new Customer Feedback and Freedom of Information Request system named Icasework. This will co-

ordinate and track all customer feedback and FOI requests received by the authority under the Act. Training, online support materials and reporting mechanisms to ensure customer feedback is responded to and learnt from are being established.

An annual customer feedback report is produced twice a year and presented to the Senior Leadership Team and members, as well as producing the statutory Annual Report. Consideration is also being given to the establishment of an LGO review panel to ensure the authority learns from the outcomes of any LGO reports. This will be chaired by the Director of Customers & Communities.

The Council continues to establish strong links with the Voluntary, Community and Social Enterprise sector [VCSE] to ensure that the work we are doing is having the desired effect within all of Somerset's communities. Over the last year a Social Value Policy has been approved by Cabinet, established a £1million Social Enterprise Fund with the Somerset Community Foundation, and set up Strategic Forum with the VCSE. This aim of the Forum is to provide a voice and representation for the VCSE sector at all key countywide partnerships, meetings and provide an effective means of communication and networking between the representatives and with the wider VCSE

The Strategic Forum brings together a significant section of the VCSE sector, with senior staff from the local authority, health and other key county-wide services partners, each with a mandate to represent a to enable an exchange of information and views for the benefit of the people of Somerset.

In terms of communications to the staff, a number of channels are regularly used to ensure that they are fully engaged in what the County Council is striving to achieve, and the culture and values of the organisation. This includes the Core Brief process, with key messages to Strategic Managers which are required to be cascaded to all staff. The Core Brief process is used tell staff what is happening in the County Council in terms of its future, with such articles as the approach to the Care Act and the MTFP. Core Brief is also used by HR and governance officers to launch policies with our staff and to remind them of how they are expected to act. In 2014/2015, we had articles on data protection, whistleblowing, appraisals, the Scheme of Delegation, decision-making, our Working Agreement, transparency and so on.

There is also Our Somerset, which is a weekly e-mail update to staff from the Leader and SLT, and numerous roadshows and "meet the leader" sessions to communicate with our staff. We have also held our Staff Awards in 2014/2015 to highlight and honour those staff who have excelled against our "4Cs" values. We also have regular poster campaigns throughout SCC buildings. Some services, such as Learning Disabilities, also produce more localised newsletters.

There are a number of channels by which the Senior Leadership Team communicates with its Strategic Managers. There are fortnightly policy briefings, which are stored on the Policy Co-ordination intranet site. SLT and Strategic Managers also have a programme of 1/2 day meetings, with presentations on a wide range of topics for information, understanding and action.

The County Council aims to have good governance arrangements in respect of partnerships and other group working as previously identified by the internal auditors report on the governance of partnerships. These are reflected in the authority's overall governance arrangements, through:

- a Partnership Standard which sets out the Council's expectations for those partnerships within which it is engaged and was reviewed in early 2014;
- a checklist for effective partnership working;
- making available guidance that supports members and officers working within partnership arrangements; and
- financial requirements as set out Financial Regulations for entering into partnerships.

Our intranet has a dedicated site specifically for Customers and Communities, which includes all the necessary guidance for ensuring that they are suitably involved in the County Council, including through tailored Consultations. Building on previous work, the County Council has a Customer Access Strategy 2014-2017 to work on priorities and delivery of the customer experience, overseen by a Digital and Customer Services Programme Board. The priorities for this programme include CASA as described in Core Principle 1 above as well as rethinking the digital and telephony offers for Customers. For example in March 2015 we launched a new 0300 telephone number for all calls coming into Somerset County Council contact centre. This not only simplified the customer pathway into SCC but also offered a cheaper call rate for our customers.

The Somerset Choices project which is part of the Adult Social Care Transformation Programme is launching a new website in 2015. It will provide information, advice, as well as offer a new e-marketplace to enable individuals and others on their behalf [including Social Workers, Advocates, family, Carers and Medical professions] to consider and address their care and support needs.

All public meetings of Committees and the Cabinet are open to stakeholders and interested persons to attend and make any representations or enable them to influence decisions or policy development. There is a weekly publication of all planned key decisions advertised on council's website and reported through democratic arrangements. In addition and in accordance with new regulations we have opened up our formal meetings to recording by third parties by putting in place a Protocol to ensure that we comply with the requirements but also avoid unnecessary disruption to meetings.

**Core Principle 3: The County Council aims to ensure members and officers work together to achieve a common purpose with clearly defined functions and roles.**

The Council's Constitution sets out transparently and comprehensively the rules controlling our business, including the Council's "executive arrangements", committee structure, codes of conduct, contract standing orders, financial regulations and council / cabinet schemes of delegation. The Constitution clarifies the relationship between members and officers, and the responsibilities of each party. We also continue to provide improved content on the governance website and through governance training sessions for managers and decision making report authors.

The Constitution is subject to annual review and regular updating through the Constitution Committee and Full Council. A new Constitution was agreed by Full Council in July 2014 which focused on the aims to:-

- Simplify the contents and make it easier to understand for members, officers and the public
- Remove duplication and reorder the contents into a more logical layout
- Better reflect the Council's current operating arrangements

The Constitution is kept under regular review, and smaller revisions are taken through the Constitution Committee as required.

A number of supporting documents were refreshed in 2014/2015, such as the County Council's Financial Procedures.

The Leader of Council keep the Council's Cabinet arrangements under constant review, leading to significant changes were made by the Leader on the 13<sup>th</sup> May 2015 to the Cabinet membership and responsibilities to reflect revised Council priorities. These changes included:

- The creation of a new Cabinet post of Cabinet Member for Corporate Improvement which initially will focus on the children's services improvement agenda.
- The deletion of the Cabinet post for Health and Wellbeing with the health and wellbeing functions added to the Cabinet Member post for HR and Transformation to become HR, Health and Transformation.

All significant change activity that the County Council undertakes comes under the Core Council Programme (formerly the Change Programme). All change activity is monitored through Change Governance (the Programme Review Board and the Change Board) with clear Terms of Reference. The roles and responsibilities of key officers, such as the Senior Responsible Officers and Benefits Manager have also been signed off. The Programme Management Office maintains a decisions log and issues register.

This process ensures that all such activities are managed with strong project and programme management throughout (based on Prince 2 training), in what is inevitably a period of sustained change. This framework also ensures a consistent approach including the requirements to engage stakeholders and identify the benefits and impacts of the proposed change. It ensures that Senior Responsible Officers are in place for each project and that they work within a managed and methodical structure.

During 2014/2015, the Core Council Programme built on its already well-defined methodology, with a detailed cost modelling approach to ensure that the total costs of delivering the Core Council Programme were understood to inform decision making. It has also moved towards a more "Invest To Save" approach to ensure that all expected benefits from individual projects are clear at the outset and that these outstrip the costs of implementing the change and ensure that it represents Value for Money. It has also introduced a Cumulative Impacts Group to determine the overall impact of change work on SCC.

The Core Council Programme reports regularly to Cabinet.

We review our financial management arrangements on an annual basis to ensure that they conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). These require the Chief Financial Officer to:-

- be a key member of the leadership team,
- be actively involved in all material business decisions to ensure that they align with the authority's financial strategy, and
- promote good financial management to ensure that public money is safeguarded at all times and used economically, efficiently and effectively.

A review carried out in May/June 2015 confirmed that during the financial year 2014/15 the County Council complied with all these requirements, with a finance function that was

resourced to be fit for purpose and professionally qualified and suitably experienced. Grant Thornton's report on VFM (Audit Committee January 2014) gave a strong positive message about our finance function.

**Core Principle 4: The County Council aims to promote its values and demonstrate the values of good governance through upholding high standards of conduct and behaviour.**

The Standards Committee was appointed in May 2013 with a revised and enhanced membership and remains a high profile Committee of the Council. This Committee is to: -

- Promote and maintain high standards of conduct by elected members and co-opted members
- Give advice and training to elected members and co-opted members, the Cabinet and other member bodies on propriety issues, and assist elected members and co-opted members to observe the Authority's code of conduct
- Investigate as necessary complaints referred to it by the Monitoring Officer that a member may have breached the Code of Conduct

The Standards Committee has completed its updating of processes and procedures relating to the conduct of members and the investigation of complaints against members. The Standards Committee has an enhanced and direct reporting line to Full Council on a 6 monthly basis where the Committee's report is taken as the first item of business.

A Corporate Governance Board involving key officers from all areas of governance and chaired by the Section 151 Officer, (with its own Terms of Reference), continues to maintain an overview of governance issues and promotes high standards of behaviour by officers. It is responsible for making sure that we have, and follow, an effective governance framework which is in line with our vision. In particular the group is responsible for ensuring that key elements of the Council's governance framework such as risk management and fraud prevention are regularly reviewed and updated. The Governance Board has a reporting line directly into the Senior Leadership Team, the Cabinet, the Constitution Committee and if necessary to Full Council, through the Monitoring Officer's report. A governance update report is regularly discussed with the Senior Leadership Team.

Managers remain responsible for making sure members of staff keep to policies, procedures, laws and regulations and for making sure that we include risk management in our work. SCC has a number of codes and policies that set out clear expectations and standards, and this is supported by employee policies such as whistleblowing, HR standards of conduct, grievances, harassment and bullying, and Anti-Fraud and Corruption. Information Security and Data Protection policies are now delivered to all staff by Metacompliance. This is also supplemented by governance training and intranet guidance for officers for awareness and compliance.

All new staff are made aware of The Standard of Conduct, and it is included in each statement of particulars. The need to comply with professional codes of conduct that apply to a given role is identified within Job Descriptions.

**Core Principle 5: The County Council aims to take informed and transparent decisions which are subject to effective scrutiny and risk management arrangements.**

To achieve this, the County Council:

- ensures that its constitutional arrangements provide for effective Cabinet and Council decision-making defining the roles of members and officers in these processes
- ensures that the decision-makers are provided with complete information necessary for them to make balanced and informed decisions
- consults widely before making key decisions and publishes the results of this activity as part of the decision-making process, including any potentially adverse comments
- has an Officer Scheme of Delegation in place with defined roles and responsibilities for all job grades
- ensures that the Council's Scrutiny Committees performs all of the statutory roles required of them
- publicises widely forthcoming agenda items and take as many of its decisions in public as possible.

Refinements continue to be made to decision report templates and guidance to simplify contents required of report authors, improve compliance with the requirements and ensure that the decision maker receives all the necessary information to take the decision in accordance with constitutional requirements. These improvements have been supported by training sessions organised by the Community Governance Team for all senior managers on decision making and wider governance requirements.

Significant officer work took place to ensure that the County Council complied with the Local Government Transparency Code 2015, which became statutory in April 2015. This includes publication of key data on our website.

The Council's scrutiny arrangements following reorganisation in 2013 have continued to develop with policy review and development activity taking place alongside the more reactive scrutiny. Scrutiny Committee members continue to receive both internal and external training about the role of Scrutiny and there is a good degree of attendance of the Scrutiny Chairmen at Cabinet meetings, and Cabinet members at scrutiny meetings. A number of scrutiny sessions have been deliberately widened out to include 'all member' invites. The level of public attendance and engagement at specific Scrutiny meetings has been such as to necessitate the use of larger venues to hold meetings. Effective joint scrutiny has taken place with the district councils on matters of mutual interest such as the Somerset Waste Partnership.

The Council's scrutiny arrangements were expanded in May 2015 with the creation of additional Scrutiny Committee covering Children and Families and a revised brief and title for what was previously the Scrutiny People Committee which is now the Scrutiny for Policies, Adults and Health Committee. These changes provide additional elected member capacity to the improvement programme for children's services which is a key priority for the Council.

We are also scrutinised through a number of independent regulatory and inspection bodies. Our internal audit is provided by the South West Audit Partnership, which from April 2013 became a non-for-profit local authority company now owned by 13 local authorities in the region. Through an annual plan of work agreed by members, they audit key areas of potential risk, and review and provide opinions each year on the control framework and governance. Our external auditors, Grant Thornton, have statutory obligations to validate our accounts and issue an annual report giving an opinion on

whether the accounts give a true and fair view of the financial position of the Council. They are also required to comment on our arrangements for “value for money”, which (OFSTED apart) has received a positive response. Other agencies, primarily central government departments, have the rights to scrutinise specific service delivery and provision across the County Council and report publically.

Services continue to participate in benchmarking such as Waste Dataflow and the Highways South West Benchmarking Club to permit direct performance comparisons with similar organisations.

The Audit Committee has been particularly active during 2014/2015. Its functions are modelled on those recommended by CIPFA, and it has a direct reporting link to Full Council. In addition, it has operated a “call-in” procedure to a number of key projects within the authority (such children’s social care provision and the South West One contract) to ensure that governance arrangements and reporting within these areas is robust.

In June 2014, the Cabinet approved a revised Risk Management Policy and Strategy. The Cabinet, as a result of a recommendation by senior management, has the overall responsibility to approve our risk-management strategy and policy statement, and to make sure all our staff are aware of it and comply. This will be subject to an annual review.

The Senior Leadership Team receives a monthly risk management report on key risks and this is also reported regularly to Cabinet, SLT and every Audit Committee meeting. Risk Management is also a key component of our Performance Wheel. Through the use of the dedicated JCAD system, we have a ready-made reporting tool to ensure that the latest available information is available for officers and members to act upon. Training on the use of JCAD, and on risk management principles in general has been increasingly rolled out across the Council.

We have an officer Strategic Risk Management Group which meets regularly to co-ordinate an on-going programme for risk management especially targeting the most significant corporate risks. We have a Corporate Risk Register of our significant risks, with a very senior officer as “risk owner”, detailed mitigating actions to minimise the impact of each risk and regular reporting back to the Audit Committee and Senior Leadership Team on our progress. We also do some benchmarking on our risk management through the Association of Local Authority Risk Management (ALARM).

Other areas are also focused on risk management – this is embedded within the Core Council Programme methodology as a “business as usual” task. The Client Team for the South West One contract is part of a Joint Risk Group with South West One and partners. The MTFP process included a risk analysis for each saving proposed, and at an overall level.

**Core Principle 6: The County Council aims to develop the capacity and capability of members and officers to be effective in their roles.**

The County Council has a personal development review process in place for managers to discuss with each member of staff their capacity and capability to carry out their current and future roles. Managers are responsible with staff for arranging appropriate training and development opportunities.

In order to maximise the benefits possible, we have previously centralised our training budgets, to be directed by Human Resources and Organisational Development against our key training objectives. HR continue run a number of tailored courses for officers, and

“Lunch and Learn” sessions for managers are also still part of the training available. The Peer Review noted how satisfied frontline staff were with the training and development offered to them.

A significant undertaking has been the continued development of an electronic Learning Centre, which is an on-line database of training courses that are available to all staff over an increasingly wide range of topics. This is a very cost-effective method of providing access to core training. Work has also been undertaken to use the Learning Centre to deliver e-appraisals – using the system to record and progress staff line management appraisals and holding the outcomes.

During 2014/2015 further work was done under the Linchpin programme to look at the Strategic Manager level in the organisation and the way it interacts with the Senior Leadership Team.

We have continued to roll out the SMART office programme, which the Peer Review believes that the Council is “rightly proud” of what it has achieved to date. Whilst this has been centred on the County Hall campus initially, it will include Hubs across the County to make best use of public assets. Not only has this the potential to be cost-effective, SMART working and IT allows staff to work from a number of locations and to increase their productivity as a result.

Community Governance has run a series of mandatory governance based training sessions for senior managers and decision making report authors, reminding them of our key processes and practices including improvements to the decision making templates and guidance which are available to all on our intranet site.

Internal communications through Core Brief and Your Somerset are used to draw to the attention of all staff any key messages, policies or training and development opportunities that are available. Similarly a monthly Members’ Core Brief aims to do the same for elected members.

Following the approval of the Member Development Strategy 2013-2017 in April 2013 progress has continued to be made in this area. A number of members are participating in a Personal Development Planning process and have such plans in place. The Council has joined a syndicate of councils led by Devon County Council that provides cost effective member development support and expertise and this has been critical in the successful provision of personal development plans. This is backed up by an annual programme of development activity.

We remain on track to achieve the Member Development Charter by the end of 2015.

## **Review of effectiveness**

Somerset County Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. That framework includes the Somerset Pension Fund. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit’s annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The Full Council has previously approved a Code of Governance for the County Council and a process for assessing the effectiveness of the governance framework on an annual

basis. The officer Governance Board, led by the Section 151 Officer, carried out the review for the 2014/15 statement. The review took into account:

- Internal Audit's annual opinion report for 2014/15;
- the effectiveness of internal audit through a review taken to Audit Committee annually
- external auditors' comments;
- comments from other review agencies and inspectorates, including the Peer Review;
- individual assurance reviews carried out by each major service area along the lines of the Core Principles
- a review by officers on the Governance Board of the evidence available corporately to support the six Core Principles ;
- reports to the Audit Committee relating to risk management and key risks; and
- the review of effectiveness of the role of the Section 151 officer.

A key source of evidence to support the Annual Governance Statement come from our internal auditors, and this comes from the Annual Report and Opinion of the South West Audit Partnership (SWAP). During the year, the South West Audit Partnership reported in public to every Audit Committee in accordance with our Charter, and brought a number of control issues to the attention of the members.

The internal auditor was able to offer "Reasonable Assurance in respect of the areas reviewed during the year, as most were found to be adequately controlled. Generally risks are well managed but some areas require the introduction or improvement of internal controls to ensure the achievement of objectives." He also commented that "I am encouraged by the management response and readiness to accept and address the matters raised in audit reports" and that "this also reflects an organisation that is keen to involve internal audit to help address problem areas and this can be seen as a positive commitment to improving governance arrangements".

The internal auditor did raise a number of issues that will need to be addressed in his Annual Report and Opinion, and some areas audited only achieved Partial assurance. The Audit Committee has now instructed that every audit achieving less than Reasonable assurance must return to the Audit Committee for follow up and actions to mitigate risks will be recorded on JCAD until satisfactorily resolved by management.

As a result of this review of the effectiveness of the governance framework by key officers, we have drawn up an Action Plan in accordance with "best practice" from the CIPFA Code of Practice to address points arising, and to ensure continuous improvement of the system is in place.

### **Significant governance issues**

We propose over the coming year to take steps in the AGS Action Plan to further enhance our governance arrangements. We are satisfied that these steps will address any needs for improvement that have been identified in our review of effectiveness and officers will monitor their implementation and operation on a regular basis throughout the year.

However, we are aware that a number of significant governance issues remain to be resolved, and that the County Council has a number of critical projects ahead to deliver.

A further OFSTED inspection took place in the last financial year. Although it could point to some progress in our safeguarding work, sufficient progress had not been made to improve our overall assessment scores. Improving our performance in this area remains the key issue facing the County Council at present. We have already introduced further

formal Scrutiny in this area, and provided for a Cabinet post with an Improvement brief. A permanent appointment has been made to a key officer post to address the OFSTED findings. The Children and Young People's Improvement Board, which has an independent chair, has the responsibility for monitoring progress against OFSTED judgements and overseeing the Strategic Improvement Plan. This Plan has recently been refreshed and mapped against the Ofsted Inspection 2015. Further funding has been recently announced into supporting children's social care. Essex County Council is now working with us to work on our improvement programme.

During early 2014/2015 the County Council in conjunction with a wide range of partners and local communities agreed the Somerset Flood Action Plan following the major civil emergency as a result of the severe weather and flooding experienced across large parts of our County. Work on flood resilience has continued, with revenue and capital grants from central government to deal with immediate infrastructure measures to protect those areas most at risk. The establishment of the Somerset Rivers Authority during 2014/2015 was an important step in this process, but we are under no illusion that the flood work has been completed.

To ensure that Somerset was fully compliant with the Care Act, we set up an Adults Transformation Board. Phase 1 (August 2014- March 2015) is completed and ensured we were compliant by 1<sup>st</sup> April 2015. It has already delivered on a number of areas such as engagement with our key VCS and housing partners, introduced a Resources Allocation system and developed a Safeguarding Action Plan. Phase 2, which will run from April 2015- March 2016, will deliver benefits to the organisation as the changes made in phase 1 are fully embedded and will develop the things put in place for compliance. During phase 2, more work will be done to identify and then track the benefits of the embedded changes to the organisation, and to the public.

The financial position for the County Council remains extremely difficult. The County Council has a proven track record of finding efficiencies, income and savings to balance our budget each year, with around £121m of savings achieved in the last 5 years. However, the resource forecast is for continual and substantial reduction in available funds until 2020, and as the Peer Review suggests a more "holistic" approach will be necessary to balance the budget in future years. The role of the Core Council Programme and our commissioners to effect changes to our services will be critical as a result.

There are a number of economic projects that we are engaged in, to maximise the opportunities for economic growth across the county. Hinkley Point is an opportunity for significant change in Somerset, and the delivery of new nuclear and associated economic, infrastructure and community benefits remains a top priority for the Council. We have also created a successful Local Enterprise Partnership, which has brought significant investment funding opportunities for economic development through the Growth Deal. The project to deliver high speed broadband through Connecting Devon and Somerset continues, with a Superfast Extension Programme already being developed to take coverage beyond 95%.

The Peer Review last October set out a number of challenges and identifies areas where we should look to improve. An Action Plan has been drawn up, including who is responsible for monitoring progress, and this has been through both Scrutiny Committees for comments. Delivery of this is Plan is absolutely essential for the on-going performance of the County Council. A formal progress report will come back in October 2015.

We are aware that the contract with South West One is scheduled to finish in October 2017. Regardless of any decision to be taken as to how we will get key support services in the future, it is essential that work is undertaken to ensure that the County Council gets the most economic, efficient and effective solution.

The Senior Leadership Team will be instrumental in identifying and managing the risks which arise from all these developments and will ensure that our governance arrangements continue to be fit for purpose.



**Pat Flaherty**  
**Chief Executive**  
*18 June 2015*



**John Osman**  
**Leader of the Council**  
*18 June 2015*

# Statement of Accounting Policies

**This section summarises the accounting rules and conventions we have used in preparing these accounts.**

## **1 General**

The content, layout and general rules we used to prepare these accounts are those recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA). The accounting standards used are issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements.

We have produced these accounts on the basis of CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, based on International Financial Reporting Standards.

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

## **2 The difference between Capital and Revenue**

In broad terms, revenue spending is made up of payments to employees, day-to-day running expenses and repaying debts whereas we class spending to buy assets, for example buildings, equipment and vehicles, as capital spending.

## **3 Accruals of Income and Expenditure**

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

- Fees, charges and rents due from customers are accounted for as income at the date the Council provides the goods or services;
- Supplies are recorded as expenditure when they are used. Where there is a gap between the date supplies are received and their use and the value is assessed as significant, they are carried as inventory on the Balance Sheet, at the lower of cost and net realisable value;
- Works are charged as expenditure when they are completed, before which they are carried as work in progress on the Balance Sheet;
- Interest payable on borrowings or receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument, rather than the cash flows fixed or determined by the contract;
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor entry for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and an impairment charge made for the income that might not be collected.
- The Authority is under pressure from central government to report the Statement of Accounts earlier. Therefore a minimum of £5,000 accrual limit was applied to improve the efficiency of the closing of accounts.

#### **4 Cash and Cash Equivalents**

Cash and cash equivalents include cash balances, bank overdrafts and short-term investments with an initial maturity period of less than 3 months.

#### **5 Exceptional Items**

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

#### **6 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors**

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

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

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

#### **7 Presentation of Items in Other Comprehensive Income and Expenditure**

Items listed in Other Comprehensive Income and Expenditure have to be grouped (if applicable) into those items that:

- a) Will not be reclassified subsequently to the Surplus or Deficit on the Provision of Services; and
- b) Will be reclassified subsequently to the Surplus or Deficit on the Provision of Services when specific conditions are met.

However, as the Authority do not have any transactions that are reclassifiable to the Surplus or Deficit on the Provision of Services, we are not required to split Other Comprehensive Income and Expenditure into these two groups.

#### **8 Charges to Revenue for Using Assets**

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

- depreciation attributable to the assets used by the relevant service;
- revaluation or impairment losses on assets used by the service with no accumulated gains in the Revaluation Reserve against which the losses can be written off;
- amortisation of intangible fixed assets attributable to the service;
- lease rentals directly attributable to the service.

The Authority is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance (MRP or loans fund principal), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

## **9 Employee Benefits**

### **Benefits Payable during Employment**

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

### **Termination Benefits**

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. They are charged on an accruals basis to the relevant service line in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers, or makes an offer to encourage voluntary redundancy.

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

### **Post Employment Benefits**

Employees of the Authority are eligible to be a member of either:

- 1) The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE);
- 2) The Local Government Pension Scheme, administered by Somerset County Council;
- 3) The NHS Pension Scheme, administered by the NHS Business Service Authority; and
- 4) The National Employment Savings Trust (NEST), administered by the NEST Corporation.

These schemes provide defined benefits to members (retirement lump sums and pensions), earned through employment in the Authority.

However, the arrangements for the Teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Authority. The scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Education and Children's Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

Further details on the Local Government Pension Scheme can be found in note 48 on page 116.

## **10 Discretionary Benefits**

The Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (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.

## **11 Financial Instruments**

### Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost.

Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

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

### Financial Assets

Financial Assets are classified into two types:

- 1) Loans and debtors – assets that have fixed or determinable payments but are not quoted in an active market;
- 2) Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

## Loans and Debtors

Loans and debtors are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value, and are carried at their amortised cost.

Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For the loans that the Authority has issued, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

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

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

## **12 Government Grants and Contributions (Including Donated Assets)**

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

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

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

Monies advanced as grants and contributions for which conditions have not yet been met 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 or Taxation and Non-specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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

Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

## **13 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 Authority as Lessee**

#### **Finance Leases**

Property, plant and equipment held under finance leases are 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 to the Authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied by 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 the write down of 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).

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

#### **Operating Leases**

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

property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

## **The Authority as Lessor**

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

Lease rentals receivable are apportioned between:

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

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

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

### **Operating Leases**

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

## 14 Property, Plant and Equipment (PPE)

Property, plant and equipment are assets with a physical substance that are held for use in the provision of services, for rental to others, or for administrative purposes, and that will be used during more than one financial year. However, we charge certain lower value items that have an expected life of more than one year (for example, library books) to revenue in the year we buy them.

The types of assets we include under Property, plant and equipment reflect the classifications identified in the Code:

- Land;
- Buildings;
- Vehicles and Equipment;
- Infrastructure (mainly road improvements);
- Community assets (such as parks and historic buildings);
- Assets under construction (except Investment Properties); and
- Surplus property, plant and equipment (not classified as held for sale).

### Recognition

We capitalise expenditure on Property, plant and equipment including the costs of acquisition and construction, and costs incurred subsequently to enhance, replace part of, or service the asset provided that it yields benefits or service potential for more than one year and the cost or fair value can be reliably measured.

Subsequent costs arising from day-to-day servicing of the assets, such as repairs and maintenance, are not capitalised. Where a component of an asset is replaced or restored (i.e. expenditure on enhancing the asset), we de-recognise the carrying amount of the old component.

### Measurement

Property, plant and equipment are initially measured at cost on an accruals basis, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Donated assets are measured at fair value at the date of acquisition. Assets are then carried in the balance sheet using the following measurement basis:

<b>Group of assets</b>	<b>Measure</b>	<b>Basis</b>
Land	Fair value	Existing Use Value (EUV)
Buildings – Non Schools	Fair value	Existing Use Value (EUV)
Buildings – Schools	Fair value	Depreciated Replacement Cost (DRC)
Vehicles and equipment	Fair value	Depreciated Historic Cost
Infrastructure	Historic cost	Depreciated Historic Cost
Community assets	Historic cost	Depreciated Historic Cost
Assets under construction	Historic cost	Cost
Surplus assets	Fair value	Existing Use Value (EUV)

If there is no market-based evidence of fair value because of the specialist nature of the asset, we estimate fair value using the cost of replacing the asset with its modern equivalent (i.e. at depreciated replacement cost).

Assets that are included in the Balance Sheet at fair value are revalued on a rolling basis over 5 years. When an asset is revalued, any accumulated depreciation and impairment at the date of revaluation is eliminated against the gross carrying amount and the net amount restated to the revalued amount of the asset. Where the value of the asset increases upon revaluation, the increase is recognised in the revaluation reserve, unless the increase is reversing any previous revaluation loss or impairment previously charged to the Surplus or Deficit on Provision of Services.

In such cases, the reversal of the previous decrease credits the Surplus or Deficit on Provision of Services to the extent that the reversal does not exceed the carrying amount that would have been determined had no previous decrease been recognised. Any increase in value above the reversal is treated as a revaluation gain and credited to the Revaluation Reserve.

Where the value of the asset decreases upon revaluation, the decrease is charged to the Revaluation Reserve up to the credit balance existing in respect of the asset, and thereafter to the Surplus or Deficit on Provision of Services. Under regulations and statutory guidance, revaluation gains and losses charged to the Surplus or Deficit on the Provision of Services are not proper charges to the General Fund. We therefore transfer such amounts to the Capital Adjustment Account in the Movement in Reserves Statement.

Transferring property between services is reflected in the accounts at the current value on the date the transfer takes place.

Consideration is also given each year of the possibility there may be a material change in value within the asset portfolio's that were not valued during the year. If a material movement is identified, we consider whether an adjustment is required in our accounts to ensure that our assets are carried out their true fair value.

### Depreciation

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. With the exception of land that has an unlimited useful life we depreciate all property, plant and equipment assets that are available for use, on a straight-line basis over the period that we expect to use them, with the charge being allocated to the Surplus or Deficit on the Provision of Services. For assets with components that have different useful lives, each component is depreciated separately (see Componentisation below). Typically, we use the following useful lives for our assets for depreciation purposes:

<b>Type</b>	<b>Useful life</b>
Freehold land	Indefinite, therefore not depreciated
Leasehold land & buildings	Life is dependent on the lease terms
Operational buildings	20 to 50 years, depending on type of building and other operational factors
Infrastructure e.g. road improvements	25 years
Vehicles	5 to 15 years
Plant	10 years
Mobile classrooms	40 years
IT and other equipment	4-7 years
Software	5 years
Software licences	25 years
Community assets	10 years

Under regulations and statutory guidance, depreciation charged to the Surplus or Deficit on the Provision of Services is not a proper charge to the General Fund. We therefore transfer such amounts to the Capital Adjustment Account in the Movement in Reserves Statement. Additionally, on revalued assets, we transfer from the Revaluation Reserve to the Capital Adjustment Account the difference in depreciation based on the revalued carrying amount and the depreciation based on the asset's historical cost.

### Componentisation

Where a high value asset, for example a building, includes a number of components with significantly different asset lives, we are required to identify and depreciate the components separately from the main asset. This additional analysis is only required for assets that we deem 'significant', so we are required to set a materiality threshold to assist with the identification of such assets. For 2014/15, we have set a materiality threshold of £1.5 million for individual assets and a significance level for separate components of 20% of the whole asset's original cost. Consideration of componentisation is only required for assets that meet these two criteria. This is the minimum requirement (as defined by the Code) but services may choose to apply componentisation for assets below this threshold if it assists with asset planning.

Under the International Financial Reporting Standards (IFRS), there is also a requirement to separately identify any elements of previously recognised revaluation gains (reported in the Revaluation Reserve) that relate to components identified during the componentisation process. In previous years, the Revaluation Reserve had been amortised in-line with the revalued land and buildings depreciation charge to off-set the additional charge taken to the General Fund as a result of the assets increased carrying value. Where a revaluation gain was identified for an item of property with land and buildings elements, the gain was amortised in line with the increased depreciation charge.

### Impairment

We recognise an impairment loss where the carrying amount of an asset exceeds its recoverable amount. At the end of each financial year, we assess whether there is any indication that an asset may be impaired, for example there is evidence of physical damage or obsolescence of an asset. We also assess whether there is any indication that any impairment losses recognised in earlier periods for an asset may no longer exist or may have decreased, in the limited circumstances of a reversal of the event that caused the original impairment.

We account for impairment losses by initially allocating the loss against any credit balance held in the Revaluation Reserve relating to the impaired asset, and thereafter any residual impairment loss is allocated directly to the Surplus or Deficit on the Provision of Services. We account for the reversal of a previous impairment loss in the Surplus or Deficit on the Provision of Services to the extent that the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised in prior years. Any reversal amount above this is accounted for as a revaluation gain and credited to the Revaluation Reserve.

Under regulations and statutory guidance impairment losses and impairment reversals charged to the Surplus or Deficit on the Provision of Services are not proper charges to the General Fund. We therefore transfer such amounts to the Capital Adjustment Account in the Movement in Reserves Statement.

## 15 Intangible Assets

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

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Authority's goods or services.

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

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

## 16 Heritage Assets

FRS30 defines a heritage asset as one with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. The Code offers further interpretation of this definition, stating that heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations and held by the reporting entity in pursuit of its overall objectives in relation to the maintenance of heritage.

We have interpreted this to mean that an asset is not classified as a heritage asset merely because it has certain qualities (e.g. a listed building). It is the intention to preserve the asset for future generations that is important, coupled with a demonstrable contribution to knowledge and culture.

Operational heritage assets have always been shown in the Balance Sheet under their appropriate classifications. These assets continue to be shown in this way and carried in accordance with the other asset accounting policies set out herein. FRS30 does not apply to such assets.

Heritage assets (other than operational heritage assets) are measured at a valuation in line with FRS30. The standard states that the valuation may be made by any method that is appropriate and relevant. For the majority of our collection, neither cost nor valuation information can be obtained (as the cost of obtaining the valuations would be disproportionate in terms of the benefit derived). Where items have been purchased cost information is

available. We are of the opinion that we will be unable to revalue these purchased items with sufficient reliability (at a cost commensurate to users of the financial statements).

Subsequently, any newly purchased collections (where the purchase cost, either individually or collectively (if the artefact forms part of a collection), exceeds a de-minimis of £1,000) will be held at historic cost. Where the cost to acquire an artefact does not exceed this de-minimis, the purchase cost is expensed in the year of purchase as a cost of service to our Museums Service through the Income and Expenditure account.

The Authority also owns a number of collections and archive information. These are not included in the Balance Sheet, as the cost of valuation would not be commensurate with the benefits of the information and the valuations would not be readily ascertainable in many cases.

## **17 Disposals and Non-current Assets Held for Sale**

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

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

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

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

## 18 Accounting for Schools

There are four main types of state school that all receive funding from the local authority (referred to as local authority maintained):

- Community (of which there are 86 within our boundary);
- Voluntary controlled (71 within our boundary);
- Voluntary aided (37 within our boundary); and
- Foundation (12 within our boundary) .

The remaining type of state school, an Academy, (of which there are 58 within our boundary) receives its funding direct from Central Government.

Due to the complexities in accounting for schools, a working group (the Public Sector Accounting for Schools Working Group) was tasked with identifying which types of school should be consolidated into the Local Education Authorities accounts. Having completed its review, the Working Group concluded that the balance of control rested with local authorities for locally maintained schools, and that these schools should be included in the financial statements of local authorities. As no such control exists for academies there is no requirement for us to include them in our financial statements.

We have considered the Working Groups findings, and developed a policy for schools:

### **Schools Non-Current Assets**

When considering whether these schools are an 'asset' to the authority and therefore require reporting within our accounts as a non-current asset, the Code requires us to consider the asset recognition tests relevant to the arrangements that prevail for the property.

Having considered the recent LAAP Bulletin 101 – Accounting for Non-Current Assets used by LA Maintained Schools, we are of the opinion that there are three arrangements currently in existence that need to be considered:

- A freehold interest in the property – in this instance we have considered Section 4.1 of the Code and adopted the rules set out in IAS16 Property, Plant and Equipment (see Accounting Policy 14 for more details);
- A leasehold interest in the property – in this instance we have considered Section 4.2 of the Code and adopted the rules set out in IAS17 Leases (see Accounting Policy 13 for more details); and
- Occupation of the property under a mere licence – in this instance neither the Local Authority or the schools governing body retain any substantive rights to the property.

Where we have been able to evidence that we retain the freehold interest for a schools land and building we have recognised a non-current asset under the Property, Plant and Equipment (PPE) heading on our balance sheet. We have also recognised a non-current asset for any leasehold arrangements that meet the definition of a finance lease under IAS17.

For those properties, where neither a freehold nor leasehold interest exists we have deemed there to have been a mere licence granted by the legal owners (in most cases a religious body). As a mere licence passes no interest to the authority or the schools governing body, and are terminable at any time without causal action (although Section 30 (11) of the School

Standards and Framework Act 1998 provides that a reasonable period of notice, usually 2 years, be given), we are required to consider whether we hold any other substantive rights.

Under the CIPFA Code of Practice for Local Authorities, only a resource 'controlled' by the authority meets the definition of an asset, and as the mere license passes over no rights to the authority it is not possible for us to record a non-current asset on our balance sheet for schools where such a licence exists. Any subsequent expenditure incurred in relation to schools that have not been recognised is expensed through the Comprehensive Income and Expenditure Statement as revenue expenditure funded from capital under statute (REFCUS) in the year it is incurred (see Accounting Policy 22 for further details).

### **Schools revenue transactions**

Schools revenue expenditure is primarily funded by the Dedicated Schools Grant (DSG) that is allocated to the authority by the Department for Education. This is a ring-fenced grant used to fund all aspects of schools expenditure within the authority, and is delegated to each school (excluding Academies) through the Individual Schools Budget (ISB).

All school related income and expenditure (with the exception of Academies, who are funded directly from the Education Funding Agency through the General Annual Grant) are recognised through our accounts and charged against the relevant schools ISB allocation. Any unspent allocations are carried on our Balance Sheet at year-end as the Schools General Fund within the Usable Reserves section.

As Academies are funded directly and operate outside the control of the authority, they are required to report their income and expenditure in their own accounts and therefore none of their transactions are reported within the authority's accounts.

Having considered the control environment surrounding schools, the Working Group was also tasked with considering whether the local authority was able to control the operating and financial policies of the school's governing body. As the governing body of a school is deemed to be a separate entity for consolidation purposes, we have (where it's possible to demonstrate that we 'control' the policies of the governing body) also included within our accounts (where material) the school's 'Unofficial Fund' year-end cash balance and in-year income and expenditure transactions.

## **19 Provisions**

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Authority becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

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

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

## **20 Contingent Liabilities**

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

Contingent liabilities are not recognised in the Balance Sheet but are disclosed in Note 46.

## **21 Reserves**

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

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

## **22 Revenue Expenditure Funded from Capital Under Statute (REFCUS)**

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

## **23 Private Finance Initiative (PFI) and Similar Contracts**

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Authority is not deemed to control the services that are provided under its current PFI scheme, and as ownership of the property, plant and equipment passes to the Education Trust rather than the Authority at the end of the contract, during the contract period the Authority does not carry the asset used under the contract on its Balance Sheet as part of property, plant and equipment.

Prior to derecognising the asset through the Income and Expenditure account as part of the gain/loss on disposal, the asset used under the contract is recognised at the lower of its fair

value or the present value of the minimum lease payments. The asset is then matched by a corresponding liability for making payments in relation to the acquisition of the asset used under the contract to the scheme operator to pay for the capital investment.

The amounts payable to the PFI operators each year are analysed into five elements:

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement;
- finance cost – an interest charge of 9.6% on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease); and
- life-cycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to property, plant and equipment when the relevant works are eventually carried out.

## **24 Value Added Tax**

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue & Customs and all VAT paid is recoverable from them.

## **25 Overheads and Support Services**

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the *CIPFA Service Reporting Code of Practice 2014/15 (SeRCOP)*. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Authority's status as a multi-functional, democratic organisation; and
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and costs of unused assets

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

We charge the cost of management and administration to Corporate and Democratic Core and front-line services in line with the SeRCOP. The costs are charged directly where appropriate, with the rest of the costs being shared in various suitable ways. The method for a few of our more significant apportionments is set out in the following table:

Support service	Method of charging
Facilities management	- All based on a combination of floor area or number of desks
Repairs and maintenance	- Charged in line with actual spending
Property services	- Land management & Wyvern costs all to non-distributed costs (NDC)
	- Specific academy charges direct to relevant school area
	- R&M fees payable to SWOne on unitary charge
	- Remaining costs charged based on number of properties
Information and communication technology and central phones	- Based on actual software and head count
Financial services	- Based on % of time spent on direct services
Fleet management	- All based on the amount used by services
HR Services	- All based on head count
Committee services	- Charged to Corporate & Democratic Core
Somerset Direct	- All based on calls made to Somerset Direct analysed by service
Central lease charges	- Charged in line with actual spending on behalf of the service

## 26 Inventories

Inventories are included in the Balance Sheet at the lower of cost and net realisable value.

## 27 Foreign Currency Translation

Where the Authority has entered into a transaction in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

## 28 Events after the Balance Sheet Date

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

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events; and
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts are 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.

# Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by Somerset County Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other unusable reserves (i.e. those reserves created for the requirements of capital accounting).

The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance.

The Net Increase /Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

**Movement in Reserves Statement**  
**For the years ended 31 March 2014 & 2015**

	Note	Schools General Fund Balance £m	Other General Fund Balance (Restated) £m	Earmarked Reserves £m	Capital Receipts Reserve £m	Capital Grants & Contributions & Unapplied £m	Total Usable Reserves (Restated) £m	Unusable Reserves (Restated) £m	Total Authority Reserves (Restated) £m
<b>Balance as at 1 April 2013</b>		<b>20.063</b>	<b>24.081</b>	<b>45.292</b>	<b>19.972</b>	<b>17.598</b>	<b>127.006</b>	<b>-65.391</b>	<b>61.615</b>
<b>Movement in Reserves during 2013/14</b>									
Surplus or deficit (-) on provision of services		-	-78.080	-	-	-	-78.080	-	-78.080
Other Comprehensive Income and Expenditure	10/48	-	-	-	-	-	-	147.190	147.190
<b>Total Comprehensive Income and Expenditure</b>		<b>-</b>	<b>-78.080</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-78.080</b>	<b>147.190</b>	<b>69.110</b>
Adjustments between accounting basis & funding basis under regulations	6	-	96.251	-	2.990	-6.133	93.108	-93.108	-
<b>Net Increase/Decrease (-) before transfers to Earmarked Reserves</b>		<b>-</b>	<b>18.171</b>	<b>-</b>	<b>2.990</b>	<b>-6.133</b>	<b>15.028</b>	<b>54.082</b>	<b>69.110</b>
Transfers to/from (-) Earmarked Reserves	7	-1.973	-10.349	12.322	-	-	-	-	-
<b>Increase/Decrease (-) in Year</b>		<b>-1.973</b>	<b>7.822</b>	<b>12.322</b>	<b>2.990</b>	<b>-6.133</b>	<b>15.028</b>	<b>54.082</b>	<b>69.110</b>
<b>Balance as at 31 March 2014 carried forward</b>		<b>18.090</b>	<b>31.903</b>	<b>57.614</b>	<b>22.962</b>	<b>11.465</b>	<b>142.034</b>	<b>-11.309</b>	<b>130.725</b>
<b>Movement in Reserves during 2014/15</b>									
Surplus or deficit (-) on provision of services		-	-29.748	-	-	-	-29.748	-	-29.748
Other Comprehensive Income and Expenditure	13/48	-	-	-	-	-	-	-175.909	-175.909
<b>Total Comprehensive Income and Expenditure</b>		<b>-</b>	<b>-29.748</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-29.748</b>	<b>-175.909</b>	<b>-205.657</b>
Adjustments between accounting basis & funding basis under regulations	6	-	28.189	-	0.825	0.770	29.784	-29.784	-
<b>Net Increase/Decrease (-) before transfers to Earmarked Reserves</b>		<b>-</b>	<b>-1.559</b>	<b>-</b>	<b>0.825</b>	<b>0.770</b>	<b>0.036</b>	<b>-205.693</b>	<b>-205.657</b>
Transfers to/from (-) Earmarked Reserves	7	5.335	-4.672	-0.663	-	-	-	-	-
<b>Increase/Decrease (-) in Year</b>		<b>5.335</b>	<b>-6.231</b>	<b>-0.663</b>	<b>0.825</b>	<b>0.770</b>	<b>0.036</b>	<b>-205.693</b>	<b>-205.657</b>
<b>Balance as at 31 March 2015</b>		<b>23.425</b>	<b>25.672</b>	<b>56.951</b>	<b>23.787</b>	<b>12.235</b>	<b>142.070</b>	<b>-217.002</b>	<b>-74.932</b>

# Balance Sheet as at 31 March 2015

The Balance Sheet shows the value of the assets and liabilities recognised by the Authority as at the Balance Sheet date

1 April 2013 (Restated) £millions	31 March 2014 (Restated) £millions	Balance Sheet as at 31st March 2015	31 March 2015 £millions	Notes
879.853	852.823	Property, Plant & Equipment	834.260	23
1.311	1.324	Heritage assets	1.532	29
1.917	1.783	Intangible Non-Current assets	1.434	24
4.788	20.693	Long term investments	13.001	31
28.279	26.318	Long term debtors	24.527	31
<b>916.148</b>	<b>902.941</b>	<b>Long term assets</b>	<b>874.754</b>	
195.899	124.075	Short term Investments	187.137	31
1.327	6.468	Assets held for sale	3.109	26
0.363	0.479	Inventories	1.734	33
38.438	43.134	Short term debtors	60.941	34
0.013	-	Intangible Current Asset	-	
34.886	134.826	Cash and cash equivalents	69.680	41
<b>270.926</b>	<b>308.982</b>	<b>Current Assets</b>	<b>322.601</b>	
-78.640	-78.686	Short term creditors	-74.311	35
-1.910	-1.070	Revenue Grants/Contributions Receipts in Advance	-2.669	38
-19.058	-30.751	Capital Grants/Contributions Receipts in Advance	-29.854	38
-3.407	-8.049	Provisions	-10.456	37
-9.082	-8.642	Short term borrowing	-9.504	31
-	-9.200	Long term borrowing repayable < 1 year	-	31
-3.045	-1.950	Overdraft	-2.450	41
<b>-115.142</b>	<b>-138.348</b>	<b>Current Liabilities</b>	<b>-129.244</b>	
-0.138	-0.040	Provisions	-0.261	37
-342.857	-333.594	Long term borrowing repayable > 1 year	-333.489	31
-655.149	-598.423	Other long term liabilities	-788.266	36
-0.015	-	Revenue Grants/Contributions Receipts in Advance	-4.752	38
-12.158	-10.793	Capital Grants/Contributions Receipts in Advance	-16.275	38
<b>-1,010.317</b>	<b>-942.850</b>	<b>Long term liabilities</b>	<b>-1,143.043</b>	
<b>61.615</b>	<b>130.725</b>	<b>Net Assets</b>	<b>-74.932</b>	
		<b>Usable reserves</b>		
20.063	18.090	General Fund - Schools	23.425	7/39
24.081	31.903	General Fund - Other	25.672	39
45.292	57.614	Earmarked Reserves - set aside for revenue purposes	56.951	7/39
19.972	22.962	Capital Receipts Reserve	23.787	39
17.598	11.465	Capital Grants/Contributions Unapplied Reserve	12.235	39
<b>127.006</b>	<b>142.034</b>		<b>142.070</b>	
		<b>Unusable reserves</b>		
175.476	205.704	Revaluation Reserve	174.071	40
355.407	319.150	Capital Adjustment Account	338.193	40
22.907	20.338	Deferred Capital Receipts	18.333	40
-609.594	-551.884	Pensions Reserve	-742.572	40
-9.817	-7.867	Accumulated Compensated Absences Adjustment Account	-8.998	40
0.230	3.250	Collection Fund Adjustment Account	3.971	
<b>-65.391</b>	<b>-11.309</b>		<b>-217.002</b>	
<b>61.615</b>	<b>130.725</b>	<b>Total Reserves</b>	<b>-74.932</b>	

*Kevin Nacey*

Kevin Nacey CPFA, Director – Finance and Performance  
24 September 2015

**If we refer to a note number in the right-hand column, there is a further explanation in the section 'Notes to the core financial statements'**

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

Where a column is marked as (restated), please refer to note 1 which gives an explanation and details the movement of the prior period restatements.

# Comprehensive Income and Expenditure Statement

This statement shows the cost of providing services in the year in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The taxation position is shown in the Movement in Reserves Statement.

31 March 2014			Comprehensive Income and Expenditure Statement for the year ended 31 March 2015	31 March 2015			Notes
£millions (Restated) Expenditure	£millions (Restated) Income	£millions (Restated) Net		£millions Expenditure	£millions Income	£millions Net	
			<u>Continuing Operations</u>				
4.042	-1.609	2.433	Central services to the public	4.977	-2.098	2.879	8
16.992	-2.172	14.820	Cultural and related services	16.137	-2.165	13.972	8
48.502	-38.121	10.381	Environmental and regulatory services	51.057	-22.414	28.643	8
10.943	-6.868	4.075	Planning services	28.574	-21.858	6.716	8
357.047	-234.491	122.556	Education and children's services	362.895	-257.379	105.516	8
60.049	-8.026	52.023	Highways and transport services	61.273	-7.613	53.660	8
8.356	-0.235	8.121	Housing services	6.681	-0.199	6.482	8
214.253	-71.414	142.839	Adult social care	218.204	-74.872	143.332	8
12.098	-12.136	-0.038	Public Health	16.337	-15.432	0.905	8
5.566	-	5.566	Corporate and democratic core	4.902	-0.010	4.892	8
-9.044	-0.042	-9.086	Non-distributed costs	1.964	-	1.964	8
<b>728.804</b>	<b>-375.114</b>	<b>353.690</b>	<b>Surplus (-) / Deficit on Continuing Operations</b>	<b>773.001</b>	<b>-404.040</b>	<b>368.961</b>	
71.905	-	71.905	Other operating expenditure	16.187	-	16.187	10
-	-0.175	-0.175	Reversal of Icelandic investment impairment	-	-	-	
47.584	-4.378	43.206	Financing and investment income and expenditure	48.018	-3.057	44.961	11/14
-	-390.546	-390.546	Taxation and non-specific grant income	-	-400.361	-400.361	12
<b>848.293</b>	<b>-770.213</b>	<b>78.080</b>	<b>Surplus (-) or Deficit on Provision of Services</b>	<b>837.206</b>	<b>-807.458</b>	<b>29.748</b>	
		-62.658	Surplus (-) or Deficit on revaluation of non-current assets			18.034	13
		-84.532	Remeasurement gains (-) / losses on pension assets/liabilities			157.875	48
		<b>-147.190</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>175.909</b>	
		<b>-69.110</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>205.657</b>	

# Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period.

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

2013/14 (restated) £millions		2014/15 £millions		Notes
78.080	Net surplus (-) or deficit on the provision of services	29.748		
-147.753	Adjustments to net surplus or deficit on the provision of services for non cash movements	-82.288		42
55.589	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	85.277		42
<b>-14.084</b>	<b>Net cash flows from Operating Activities</b>	<b>32.737</b>		42
-88.122	Investing Activities	23.805		43
1.171	Financing Activities	9.104		44
<b>-101.035</b>	<b>Net increase (-) or decrease in cash and cash equivalents</b>	<b>65.646</b>		
<b>31.841</b>	<b>Cash and cash equivalents at the beginning of the reporting period</b>	<b>132.876</b>		
<b>132.876</b>	<b>Cash and cash equivalents at the end of the reporting period</b>	<b>67.230</b>		41

For the purposes of the cash flow, cash and cash equivalents include the overdraft.

If we refer to a note number in the right-hand column, there is a further explanation in the section 'Notes to the core financial statements'.

# Notes to the core financial statements

## Note 1: Prior-period adjustments

### 1. Accounting for schools – non-current assets

Due to the complexities in accounting for schools, a working group (the Public Sector Accounting for Schools Working Group) was tasked with identifying which types of schools should be consolidated into the Local Education Authorities accounts.

The result of this working group led to the publication of CIPFAs LAAP Bulletin 101 – Accounting for Non-Current Assets used by LA Maintained Schools. Using this, the Authority has undergone a full review of all school arrangements within its boundary and updated policy 18 on page 40.

Changes to the policy are to be applied retrospectively. The effects of the restatement are as follows.

#### Changes to the Balance Sheet (page 47)

##### Opening 1 April 2013 Balance Sheet

	2013/14 Statements £millions	Adjustments Made £millions
Property, Plant & Equipment	921.093	-41.240
Revaluation Reserve	216.524	-41.048
Capital Adjustment Account	355.599	-0.192

##### Opening 31 March 2014 Balance Sheet

	2013/14 Statements £millions	Adjustments Made £millions
Property, Plant & Equipment	972.035	-119.212
Revaluation Reserve	321.327	-115.623
Capital Adjustment Account	322.739	-3.589

#### Changes to the Income & Expenditure Statement (page 49)

	2013/14 Statements £millions	Adjustments Made £millions
<b><u>Surplus/Deficit on Continuing Operations</u></b>		
Education and children's services	119.162	3.394
<b><u>Other Comprehensive Income &amp; Expenditure</u></b>		
Surplus (-) or Deficit on revaluation of non current assets	-137.236	74.578

## Changes to the Movement in Reserves Statement (page 45)

### Movement in Reserves Statement - Usable Reserves

	Statement of Accounts 2013/14 £millions	Restatement £millions
<b>Movement in Reserves during 2013/14</b>		
Surplus or Deficit (-) on the Provision of Services	-75.337	-3.394
Adjustments between the accounting basis and the funding basis under regulations	93.508	3.394

### Movement in Reserves Statement - Unusable Reserves

	Statement of Accounts 2013/14 £millions	Restatement £millions
<b>Movement in Reserves during 2013/14</b>		
Other Comprehensive Income & Expenditure	224.189	-74.578
Adjustments between the accounting basis and the funding basis under regulations	-90.365	-3.394

## Changes to the Cash Flow Statement (page 50)

	As previously stated 31 March 2014 £millions	Restatement £millions	Restated Balance 31 March 2014 £millions
<b><u>Net cashflows from Operating Activities</u></b>			
Net surplus (-) or deficit on the provision of services	75.337	3.394	78.731
Adjustments to net surplus or deficit on the provision of services for non-cash movements	-148.260	-0.144	-148.404
Investing Activities	-84.872	-3.250	-88.122

## **2. Unfunded Teachers Pensions**

During 2014/15, the Authority paid £1.557m (£1.540m in 13/14) for unfunded pension liabilities relating to retired Teachers. These historic payments relate to early retirements on efficiency or redundancy grounds, and the cumulative impact of these payments should have been estimated and included in the Authorities balance sheet.

As at 31<sup>st</sup> March 2015, our actuary has estimated the total liability to be £23.258m (£21.905m in 2013/14)

The effects of the restatement are as follows:

Changes to the Balance Sheet (page 47)

Opening 1 April 2013 Balance Sheet

	2013/14 Statements £millions	Adjustments Made £millions
Other Long-Term Liabilities	-635.014	-20.135
Pensions Reserve	-589.459	-20.135

Opening 31 March 2014 Balance Sheet

	2013/14 Statements £millions	Adjustments Made £millions
Other Long-Term Liabilities	-576.518	-21.905
Pensions Reserve	-529.979	-21.905

Changes to the Income & Expenditure Statement (page 49)

	2013/14 Statements £millions	Adjustments Made £millions
<b><u>Surplus/Deficit on Continuing Operations</u></b>		
Non-Distributed costs	-7.563	-1.523
<b><u>Surplus/Deficit on Provision of Services</u></b>		
Financing and Investment Income & Expenditure	42.334	0.872
<b><u>Other Comprehensive Income and Expenditure</u></b>		
Remeasurement gains (-) / losses on pension assets/liabilities	-86.953	2.421

Changes to the Movement in Reserves Statement (page 45)

Movement in Reserves Statement – Usable Reserves

	Statement of Accounts 2013/14 £millions	Restatement £millions
<b>Movement in Reserves during 2013/14</b>		
Surplus or Deficit (-) on the Provision of Services	-75.337	0.651
Adjustments between the accounting basis and the funding basis under regulations	93.508	-0.651

## Movement in Reserves Statement – Unusable Reserves

	Statement of Accounts 2013/14 £millions	Restatement £millions
<b>Movement in Reserves during 2013/14</b>		
Other Comprehensive Income & Expenditure	224.189	-2.421
Adjustments between the accounting basis and the funding basis under regulations	-90.365	0.651

## Changes to the Cashflow Statement (page 50)

	As previously stated 31 March 2014 £millions	Restatement £millions	Restated Balance 31 March 2014 £millions
<b><u>Net cashflows from Operating Activities</u></b>			
Net surplus (-) or deficit on the provision of services	75.337	-0.651	74.686
Adjustments to net surplus or deficit on the provision of services for non-cash movements	-148.260	0.651	-147.609

## Note 2: Accounting Standards That Have Been Issued but Have Not Yet Been Adopted

The Authority has yet to adopt the following accounting standards:

### IFRS 13 Fair Value Measurement (May 2011)

IFRS 13 defines fair value and sets out in a single IFRS a framework for measuring fair value. It also identifies the disclosure requirement for items measured at fair value.

Although this new standard was originally issued in May 2011, and applied to accounting periods beginning on or after 1 January 2013, its adoption was deferred by the CIPFA/LASSAC Local Authority Accounting Code Board until the 2015/16 Code.

We anticipate that this standard will not have a material impact on our accounts when it is applied prospectively from 1<sup>st</sup> April 2015.

### Annual Improvements to IFRSs 2011 – 2013 Cycle

In December 2013, the International Accounting Standards Board (IASB) issued a number of IFRS amendments. The standards affected by the 2011 – 2013 Improvements Cycle were:

- IFRS 1: First-time Adoption of International Financial Reporting Standards;

The objective of this amendment was to clarify the meaning of 'each IFRS effective at the end of an entity's first IFRS reporting period' as used in paragraph 7 of IFRS 1.

- IFRS 3: Business Combinations;

The objective of this amendment was to clarify the requirements of paragraph 2(a) of IFRS 3.

- IFRS 13 Fair Value Measurement;

The objective of this amendment was to clarify the requirements of paragraph 52 of IFRS 13.

- IAS40 Investment Property

The objective of this amendment is to clarify that judgement is needed to determine whether the acquisition of investment property is the acquisition of an asset, a group of assets or a business combination in the scope of IFRS 3 and that this judgement is based on the guidance in IFRS 3.

These amendments have been adopted in the 2015/16 and represent a change in accounting policy that will need to be applied retrospectively from 1<sup>st</sup> April 2015. We are not anticipating a material impact on our accounts as a result of these amendments.

### IFRIC 21 Levies

IFRIC 21 provides guidance on when to recognise a liability for a levy imposed by Government.

This new standard has been adopted in the 2015/16 Code, and will be applied retrospectively to our accounts from 1<sup>st</sup> April 2015 although the impact of this new standard is not expected to be material.

### **Note 3: Critical Judgements in Applying Accounting Policies**

In applying the accounting policies, Somerset County Council has had to make certain judgements about complex transactions or those involving uncertainty about future events.

The critical judgements made in this Statement of Accounts are:

- There is a high degree of uncertainty about future levels of funding for local government. However, the Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision;
- It is considered that our numismatic, metalwork and artwork collections have an indefinite life and therefore depreciation will not be applied to these heritage assets held by the Council. As a result, Heritage Assets will be reviewed for impairment on an annual basis. Should any new classes of heritage assets be identified, asset lives will be considered and depreciation applied accordingly if appropriate;
- As a result of CIPFA/LASAAC issuing an update to the Code of Practice 2014/15 in relation to Accounting for Schools we have changed our accounting policy for schools; Accounting Policy no 18 (page 40). Where we have no evidence of formal arrangements with the legal owners of the property and land being used for the maintained schools in Somerset we have assumed that no substantive rights have been passed to Somerset County Council and therefore we do not recognise those property and land assets on our Balance Sheet;
- The Authority has reviewed its relationships with other entities and has concluded that we only have PLUS Ltd and Futures for Somerset which would fall under the Group Accounts criteria;

- The Authorities significant contracts have been reviewed and no embedded finance leases or service concessions were found. The Authority does have one Private Finance Initiative (PFI) contract for the provision of schools; note 28 (page 89) provides further detail;
- We have also reviewed our use of provisions to ensure that we have accounted for circumstances which meet the criteria in the appropriate way. We have taken a robust approach to ensure that we have correctly accounted for these.

#### **Note 4: Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty**

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

The items in the Balance Sheet at 31 March 2015 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

<b>Item</b>	<b>Uncertainties</b>	<b>Effect if Actual Results Differ from Assumptions</b>
<b>Depreciation</b>	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it more difficult to sustain spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	<p>If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.</p> <p>It is estimated that the annual depreciation charge would increase by approximately £6.020 million for every year that useful lives had to be reduced.</p>
<b>PPE – Land &amp; Buildings</b>	Land & Buildings are carried in the balance sheet using different measurements bases as specified in the accounting policies on page 35. Where the measurement basis is not Historic Cost the Fair Value of the asset is estimated. We are dependent on information provided by professional valuers to ensure the fair value of assets is true and fair.	If asset values were understated by 1% PPE would need to increase by £4.8m and subsequent depreciation would increase by £0.121m
<b>Provisions</b>	<p>The Authority has made several provisions in relation to probable service liabilities in line with IAS 37 – Provisions, Contingent Liabilities and Contingent Assets. There is uncertainty around the value or probability of these liabilities.</p> <p>The Authority has also recognised a provision for Non-Domestic Rate (NDR) appeals of £2.345m as result of the localisation of business rates.</p>	<p>The liabilities are based on a best estimate of the expenditure required to meet the obligation. A 10% increase in this figure would change the liability by £223,400.</p> <p>As a precepting authority, we are dependent on information provided by the district billing authorities to determine the likely value of the provision. If the billing authorities were to collectively under-estimate the likelihood of appeals success by 10% the liability would increase by £234,500.</p>

<b>Pensions Liability</b>	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. We instruct Barnett Waddingham, a firm of actuaries, to make these sensitive judgements on our behalf.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £27.864 million (see the sensitivity analysis on page 123 for other potential movements to the pensions liability as a result of changes in actuarial assumptions)
<b>Accruals</b>	The Authority makes a large number of accruals at the year end to account for timing differences in expenditure and income. Each service area is responsible for its own accruals and this helps with accuracy due to access to the right documentation to identify when accruals are appropriate.	If accruals are not correctly estimated they can have a substantial effect on the current year's result and consequently the following year when the accrual is reversed.
<b>Doubtful Debt Impairment</b>	The Authority calculates an impairment on its debtors to give a prudent position after accounting for risk of non-collection. The impairment for doubtful debts this year was £339,310.32.	If our assumptions are incorrect by 10% the increase or decrease in our impairment would be approximately £33,931.03.
<b>Employee benefit accrual</b>	<p>The Authority is required to make an accrual for the value of employee benefits carried over at the year end. The accrual includes teachers and non-teaching SCC staff, excluding term time only contracts.</p> <p><u>Assumptions within the accrual</u> The teachers' pay is based on actual salaries and actual days carried forward. The only assumption made is that 99.5% of teachers continue in their job or leave the authority. The other 0.5% is assumed to resign from one job and take up another position with the Authority.</p> <p>The SCC staff accrual has a few assumptions:</p> <ol style="list-style-type: none"> <li>1) A sample was made to calculate the average leave and flexi time carried forward. This sample was applied to all staff salary costs. Each year we consider any significant staff changes in service areas. Any material changes we will redo the sample. For 2014/15 there were no major changes.</li> <li>2) An average rate for national insurance and superannuation has been made based on the actual charge for the year. This average has been applied to all staff.</li> </ol>	<p>If accruals are not correctly estimated they can have a substantial effect on the current year's result and consequently the following year when the accrual is reversed.</p> <p>The accrual may be too high/low for the movement in the percentage of teachers taking up another position differs.</p> <p>1) If actuals differ from the sample average, the accrual may be substantially under or over estimated. If the staff that left held excessive amounts of leave and flexi and this was paid off, it would affect the sample calculation and the accrual may be over/under estimated.</p> <p>2) SAP's limitation on Payroll reporting means we cannot show the actual rates paid per person. Some staff will not pay superannuation or have different national insurance rates to the average. The value of the accrual may be over/under estimated.</p>
<b>Accounting for Schools</b>	Where the Authority has been unable to evidence any freehold or leasehold interest in schools related property assets there is an underlying assumption that the Authority holds no substantive rights to the assets. Where no substantive rights can be evidenced, the Authority does not recognise any assets in its Balance Sheet.	If the Authority does hold substantive rights to these properties an asset may need to be recognised in our Balance Sheet (depending on the type of rights held). As part of our analysis we have identified 136 schools related assets (with an estimated value of £170.037m where no substantive rights could be evidenced. If one school related asset has been incorrectly classified, our Balance Sheet may be understated by approximately £1.250m.

<b>Academies</b>	During the coming year a further number of schools will move to Academy status. There is a large number of accounting and operational processes which have to be completed to ensure the transition is effected accurately and positively.	If the assets relating to these schools are not accounted for correctly or if schools do not move to Academy status but this is not communicated there is a high risk that our balance sheet will be affected.
<b>PFI &amp; Similar Arrangements</b>	PFI and similar arrangements have been considered to have an implied finance lease within the arrangement. In assessing the leases the Authority has estimated the implied interest rate within the leases to calculate interest and principal payments. The future RPI increase within the contracts has been estimated as remaining constant throughout the remaining period of the contract.	Any unexpected change in future RPI's will affect the contingent rent charged to Comprehensive Income & Expenditure Account.  For example, a 1% increase in RPI next year would result in an additional £6,453 contingent rent and an additional £17,084 of service costs being charged in our accounts.

## **Note 5: Events after the Balance Sheet Date**

From the 1<sup>st</sup> of August 2015 one of our Trading Units, Somerset Skills & Learning will transfer to a new Social Enterprise organisation. The impact of this transfer will mean that the Expenditure (£8.300m 2014/15) and Income (£6.237m 2014/15) from these activities will not in future years form part of Financing & Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement.

## Note 6: Adjustments between Accounting Basis and Funding Basis under Regulation

Adjustments between accounting basis and funding basis under regulations for the year ended 31 March 2015	General Fund - Schools & Other £millions	Capital Receipts Reserve £millions	Capital Grants & Contributions Unapplied £millions	Total Usable Reserves £millions	Unusable Reserves £millions	Total Authority Reserves £millions
<b>Adjustments involving the Capital Adjustment Account:</b>						
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</u>						
Charges for depreciation and impairment of non current assets	41.758	-	-	41.758	-41.758	-
Impairment of current held for sale assets	3.255	-	-	3.255	-3.255	-
Revaluation losses on property, plant and equipment	7.385	-	-	7.385	-7.385	-
Amortisation of intangible assets	0.382	-	-	0.382	-0.382	-
Capital grants and contributions	-53.005	-	53.005	-	-	-
Increase to Icelandic Investment Impairment	0.702	-	-	0.702	-0.702	-
Revenue expenditure funded from capital under statute	2.993	-	24.885	27.878	-27.878	-
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	17.547	-	-	17.547	-17.547	-
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement</u>						
Statutory provision for the financing of capital investment	-10.742	-	-	-10.742	10.742	-
Capital expenditure charged against the General Fund	-9.888	-	-	-9.888	9.888	-
<b>Adjustments involving the Capital Receipts Reserve:</b>						
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-7.440	7.440	-	-	-	-
Use of the capital receipts reserve to finance new capital expenditure	-	-6.602	-	-6.602	6.602	-
Contribution from the capital receipts reserve towards administration costs of non current asset disposals	0.053	-0.053	-	-	-	-
Interest received on Rural Regeneration capital receipts reserve	-0.012	0.012	-	-	-	-
Principal repayments transferred to the capital receipts reserve	-	0.028	-	0.028	-0.028	-
<b>Adjustments involving the Deferred Capital Receipts Reserve:</b>						
Amounts of l/term debtors written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	1.977	-	-	1.977	-1.977	-
<b>Adjustments involving the Capital Grants Unapplied Reserve:</b>						
Use of the capital grants unapplied reserve to finance new capital expenditure	-	-	-77.120	-77.120	77.120	-
<b>Adjustments involving the Pensions Reserve:</b>						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	62.272	-	-	62.272	-62.272	-
Employer's pension contributions and direct payments to pensioners payable in the year	-29.458	-	-	-29.458	29.458	-
<b>Adjustments involving the Collection Fund Adjustment Account:</b>						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	-1.402	-	-	-1.402	1.402	-
Amount by which NNDR income credited to the Comprehensive Income and Expenditure Statement is different from NNDR income calculated for the year in accordance with statutory requirements	0.681	-	-	0.681	-0.681	-
<b>Adjustment involving the Accumulating Compensated Absences Adjustment account:</b>						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	1.131	-	-	1.131	-1.131	-
<b>Total adjustments between accounting basis &amp; funding basis under regulations</b>	<b>28.189</b>	<b>0.825</b>	<b>0.770</b>	<b>29.784</b>	<b>-29.784</b>	<b>-</b>

<b>Adjustments between accounting basis and funding basis under regulations for the year ended 31 March 2014</b>	<b>General Fund - Schools &amp; Other (Restated)</b>	<b>Capital Receipts Reserve</b>	<b>Capital Grants &amp; Contributions Unapplied</b>	<b>Total Usable Reserves (Restated)</b>	<b>Unusable Reserves (Restated)</b>	<b>Total Authority Reserves</b>
	<b>£millions</b>	<b>£millions</b>	<b>£millions</b>	<b>£millions</b>	<b>£millions</b>	<b>£millions</b>
<b>Adjustments involving the Capital Adjustment Account:</b>						
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</u>						
Charges for depreciation and impairment of non current assets	41.423	-	-	41.423	-41.423	-
Impairment of current held for sale assets	2.845	-	-	2.845	-2.845	-
Revaluation losses on property, plant and equipment	9.148	-	-	9.148	-9.148	-
Amortisation of intangible assets	0.329	-	-	0.329	-0.329	-
Capital grants and contributions	-34.550	-	34.550	-	-	-
Reduction of Icelandic Investment Impairment	-0.175	-	-	-0.175	0.175	-
Revenue expenditure funded from capital under statute	6.896	-	15.205	22.101	-22.101	-
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	74.114	-	-	74.114	-74.114	-
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement</u>						
Statutory provision for the financing of capital investment	-18.668	-	-	-18.668	18.668	-
Capital expenditure charged against the General Fund	-1.128	-	-	-1.128	1.128	-
<b>Adjustments involving the Capital Receipts Reserve:</b>						
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-7.613	7.613	-	-	-	-
Use of the capital receipts reserve to finance new capital expenditure	-	-5.413	-	-5.413	5.413	-
Contribution from the capital receipts reserve towards administration costs of non current asset disposals	0.080	-0.080	-	-	-	-
Interest received on Rural Regeneration capital receipts reserve	-0.011	0.011	-	-	-	-
Principal repayments transferred to the capital receipts reserve	-	0.859	-	0.859	-0.859	-
<b>Adjustments involving the Deferred Capital Receipts Reserve:</b>						
Amounts of l/term debtors written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	1.709	-	-	1.709	-1.709	-
<b>Adjustments involving the Capital Grants Unapplied Reserve:</b>						
Use of the capital grants unapplied reserve to finance new capital expenditure	-	-	-55.888	-55.888	55.888	-
<b>Adjustments involving the Pensions Reserve:</b>						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	55.022	-	-	55.022	-55.022	-
Employer's pension contributions and direct payments to pensioners payable in the year	-28.200	-	-	-28.200	28.200	-
<b>Adjustments involving the Collection Fund Adjustment Account:</b>						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	-3.763	-	-	-3.763	3.763	-
Amount by which NNDR income credited to the	0.743	-	-	0.743	-0.743	-
<b>Adjustment involving the Accumulating Compensated</b>						
Amount by which officer remuneration charged to the	-1.950	-	-	-1.950	1.950	-
<b>Total adjustments between accounting basis &amp; funding basis under regulations</b>	<b>96.251</b>	<b>2.990</b>	<b>-6.133</b>	<b>93.108</b>	<b>-93.108</b>	<b>-</b>

## Note 7: Transfers to/from Earmarked Reserves

This note shows the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund in 2014/15.

	Balance at 31 March 2013 £millions	Transfers Out 2013/14 £millions	Transfers In 2013/14 £millions	Net Movement 2013/14 £millions	Balance at 31 March 2014 £millions	Transfers Out 2014/15 £millions	Transfers In 2014/15 £millions	Net Movement 2014/15 £millions	Balance at 31 March 2015
<b>General Fund:</b>									
Operating Accounts	1.017	-0.644	0.004	-0.640	0.377	-0.107	1.528	1.421	1.798
Economic Development Fund	1.970	-	0.057	0.057	2.027	-0.103	0.010	-0.093	1.934
Capital Fund	6.549	-	0.768	0.768	7.317	-	3.629	3.629	10.946
Invest to Save Fund	0.480	-	-	-	0.480	-	-	-	0.480
Self Financing Fund	0.400	-	-	-	0.400	-	-	-	0.400
CCN	-	-	0.177	0.177	0.177	-0.177	-	-0.177	-
PATS	-	-	0.117	0.117	0.117	-0.117	-	-0.117	-
Pensions Equalisation	0.476	-0.223	0.003	-0.220	0.256	-0.123	0.001	-0.122	0.134
Adult Social Care Capacity Planning Reserve	4.893	-1.905	0.391	-1.514	3.379	-1.789	-	-1.789	1.590
Carers Pooled Budget	0.122	-0.122	0.063	-0.059	0.063	-0.024	-	-0.024	0.039
UC Equalisation Reserve	2.711	-0.986	1.308	0.322	3.033	-0.257	1.155	0.898	3.931
Supply Mutual Fund Reserve	-	-	0.458	0.458	0.458	-	0.189	0.189	0.647
Legal Services - schools earmarked	-	-	0.095	0.095	0.095	-	0.022	0.022	0.117
LATS Earmarked Reserve	0.145	-	0.001	0.001	0.146	-0.020	-	-0.020	0.126
National Grid	0.121	-0.121	-	-0.121	-	-	-	-	-
Hinkley Project	0.338	-0.338	0.212	-0.126	0.212	-0.106	-	-0.106	0.106
Elections	-	-	-	-	-	-	0.238	0.238	0.238
NIDR Funding	-	-	-	-	-	-	1.405	1.405	1.405
Highbridge Enterprise Center funding	-	-	-	-	-	-0.224	0.250	0.026	0.026
Somerset Rivers Authority	-	-	-	-	-	-	2.056	2.056	2.056
Highways Flood Recovery (DfT)	-	-	-	-	-	-	7.666	7.666	7.666
Levels & Moors 20 Yr Plan (DfT)	-	-	-	-	-	-	4.309	4.309	4.309
Resilience 20 Yr Plan EA (DCLG)	-	-	-	-	-	-	0.409	0.409	0.409
Total Transport Pilot Fund	-	-	-	-	-	-	0.305	0.305	0.305
Sustainable Drainage Funding	-	-	-	-	-	-	0.128	0.128	0.128
Somerset Drug & Alcohol	0.507	-0.300	0.289	-0.011	0.496	-0.227	0.091	-0.136	0.360
Dickinson Papers EMR	0.008	-0.008	-	-0.008	-	-	-	-	-
Superfast Broadband	0.038	-0.038	0.168	0.130	0.168	-	0.439	0.439	0.607
Social Worker Trainees	-	-0.176	0.292	0.116	0.116	-	-	-	0.116
Aiming High	-	-0.200	0.200	-	-	-	-	-	-
Targeted Youth	-	-	0.012	0.012	0.012	-	-	-	0.012
Adoption Reform Grant	-	-	-	-	-	-	0.824	0.824	0.824
Substance Misuse	-	-0.034	0.034	-	-	-	-	-	-
Refuse & Recycling Contract	-	0.000	0.213	0.213	0.213	-0.213	-	-0.213	-
Local Enterprise Partnership (LEP)	-	-	0.235	0.235	0.235	-	0.001	0.001	0.236
Change Programme	4.267	-1.198	-	-1.198	3.069	-1.315	-	-1.315	1.754
LAA Performance Reward	0.462	-0.462	-	-0.462	-	-	-	-	-
SWP - WDA	0.088	-0.045	0.399	0.354	0.442	-0.262	0.101	-0.161	0.281
SWP - SCC	-	-	0.138	0.138	0.138	-0.138	-	-0.138	-
Environment Commuted Sums Reserve	1.141	-	0.346	0.346	1.487	-	0.264	0.264	1.751
School Improvement Board	-	-0.250	1.000	0.750	0.750	-0.250	-	-0.250	0.500
Dredging 4 Somerset Rivers	-	-	0.484	0.484	0.484	-	-	-	0.484
Museums - Silver Collection/ Bequests	0.079	-	0.021	0.021	0.100	-0.100	-	-0.100	0.000
Records Bequest	0.046	-	-	-	0.046	-0.046	-	-0.046	0.000
Insurance Fund Reserve	5.861	-2.976	0.042	-2.934	2.927	-	0.633	0.633	3.560
Youth Bank	0.045	-0.004	-	-0.004	0.041	-	0.010	0.010	0.051
Central Schools Budget - Compact	3.745	-0.421	-	-0.421	3.324	-1.052	0.759	-0.293	3.031
Trust Funds	0.004	-0.004	-	-0.004	-	-	-	-	-
BSF Bridgwater Equalisation Reserve	0.707	-	1.034	1.034	1.741	-	0.811	0.811	2.552
Repairs and Maintenance Fund (inc BMIS)	0.928	-0.301	0.008	-0.293	0.635	-0.173	0.287	0.114	0.749
Directorate Budget Carry Forwards	8.144	-8.333	22.842	14.509	22.653	-28.983	7.623	-21.360	1.293
Total excluding School Balances	45.292	-19.089	31.411	12.322	57.614	-35.806	35.143	-0.663	56.951
Balances held by schools under a scheme of delegation	20.063	-20.063	18.090	-1.973	18.090	-20.225	25.560	5.335	23.425
<b>Total</b>	<b>65.355</b>	<b>-39.152</b>	<b>49.501</b>	<b>10.349</b>	<b>75.704</b>	<b>-56.031</b>	<b>60.703</b>	<b>4.672</b>	<b>80.376</b>

## Note 8: Analysis of our spending on services

The Code says we must provide a detailed list, in a specific format, of our total spending on services. This means that you can easily see how we compare to other county councils' spending patterns.

2013/14 (Restated) Spending less income £millions		2014/15		
		Total spending £millions	Total income £millions	Spending less income £millions
<b>Central services to the public</b>				
0.657	Registration of births, deaths and marriages	1.854	-1.034	0.820
0.788	Emergency planning	1.465	-0.304	1.161
-0.213	Local land charges	0.077	-0.225	-0.148
0.279	Grants (including citizens advice bureaux)	0.596	-0.265	0.331
0.922	Coroner's court	0.800	-	0.800
-	Other court services	0.185	-0.270	-0.085
<b>2.433</b>		<b>4.977</b>	<b>-2.098</b>	<b>2.879</b>
<b>Cultural and related services</b>				
2.867	Culture and heritage	3.814	-0.642	3.172
1.557	Open spaces	2.046	-0.543	1.503
1.579	Recreation and sport	1.626	-	1.626
0.042	Tourism	0.052	-0.041	0.011
8.775	Library service	8.599	-0.939	7.660
<b>14.820</b>		<b>16.137</b>	<b>-2.165</b>	<b>13.972</b>
<b>Environmental services</b>				
0.087	Agricultural services	0.700	-0.509	0.191
0.005	Coast protection	-	-	-
-17.812	Flood defence	1.415	-2.470	-1.055
0.122	Community safety - safety services	0.115	-0.007	0.108
0.614	Community safety - crime reduction	0.685	-0.094	0.591
1.605	Regulatory services	2.147	-0.617	1.530
-1.266 *	Waste collection	17.417	-18.319	-0.902 *
19.052	Waste disposal	19.673	-0.332	19.341
7.974	Recycling	8.905	-0.066	8.839
<b>10.381</b>		<b>51.057</b>	<b>-22.414</b>	<b>28.643</b>
<b>Planning and development services</b>				
1.195	Planning policy	1.935	-0.704	1.231
-0.095	Environmental initiatives	0.082	-0.073	0.009
1.066	Economic development	22.775	-19.449	3.326
0.554	Development control	0.512	-0.068	0.444
-0.047	Economic research	1.146	-0.926	0.220
0.252	Business support	1.004	-0.638	0.366
1.150	Community development	1.120	-	1.120
<b>4.075</b>		<b>28.574</b>	<b>-21.858</b>	<b>6.716</b>
<b>Education services</b>				
3.077	Early Years	23.034	-23.295	-0.261
21.551	Primary schools	148.681	-138.779	9.902
12.874	Secondary schools	53.288	-46.584	6.704
2.519	Special schools	35.688	-30.323	5.365
3.331	Services to young people	5.847	-6.366	-0.519
16.786	Other school-related education functions	25.382	-7.698	17.684
<b>60.138</b>		<b>291.920</b>	<b>-253.045</b>	<b>38.875</b>
<b>91.847</b>		<b>392.665</b>	<b>-301.580</b>	<b>91.085</b>

\* This credit balance relates to income received from districts to cover capital financing.

The 2013/14 comparatives have been restated as a result of the 2014/15 SERCoP changes introduced from 1st April 2014.

## Note 8 (continued)

2013/14 (Restated)		2014/15		
Spending less income £millions		Total spending £millions	Total income £millions	Spending less income £millions
<b>Children's social care</b>				
7.132	Children's Centres	8.001	-0.125	7.876
30.582	Children looked after	35.840	-1.422	34.418
3.153	Family support services	5.743	-1.347	4.396
1.158	Youth justice	2.066	-0.902	1.164
16.865	Children and young people's safety	17.812	-0.385	17.427
0.053	Asylum seekers	0.100	-0.087	0.013
3.475	Other children and family services	1.413	-0.066	1.347
<b>62.418</b>		<b>70.975</b>	<b>-4.334</b>	<b>66.641</b>
<b>Highways and transport services</b>				
5.731	Transport, planning, policy and strategy	8.808	-2.724	6.084
0.878	Highways structural maintenance	1.826	-0.068	1.758
18.973	Capital charges relating to construction	19.424	-	19.424
7.203	Environment safety & routine maintenance	7.051	-0.264	6.787
4.150	Street lighting	4.222	-0.012	4.210
1.442	Managing traffic and road safety	2.340	-0.281	2.059
0.137	Parking	1.908	-1.776	0.132
11.677	Public transport	14.331	-2.464	11.867
1.832	Winter maintenance	1.363	-0.024	1.339
<b>52.023</b>		<b>61.273</b>	<b>-7.613</b>	<b>53.660</b>
<b>Housing services</b>				
8.116	Supporting people	6.677	-0.199	6.478
0.005	Other housing	0.004	-	0.004
<b>8.121</b>		<b>6.681</b>	<b>-0.199</b>	<b>6.482</b>
<b>Adult social care</b>				
10.705	Physical support - adults (18-64)	15.011	-2.885	12.126
52.687	Physical support - older people (65+)	90.120	-37.568	52.552
0.143	Sensory support - adults (18-64)	0.200	-0.038	0.162
0.705	Sensory support - older people (65+)	1.205	-0.502	0.703
0.044	Support with memory and cognition - adults (18-64)	0.061	-0.012	0.049
0.542	Support with memory and cognition - older people (65+)	0.927	-0.386	0.541
47.427	Learning disability support - adults (18-64)	72.428	-25.174	47.254
4.633	Learning disability support - older people (65+)	7.071	-2.454	4.617
1.683	Mental health support - adults (18-64)	1.618	-0.275	1.343
4.840	Mental health support - older people (65+)	4.652	-0.791	3.861
0.596	Social support: Support for carer	1.003	-0.434	0.569
1.552	Assistive equipment and technology	3.053	-1.513	1.540
12.709	Social care activities	15.841	-1.906	13.935
4.573	Commissioning and service delivery	5.014	-0.934	4.080
<b>142.839</b>		<b>218.204</b>	<b>-74.872</b>	<b>143.332</b>
<b>Public Health</b>				
0.504	Sexual health	3.844	-3.795	0.049
-0.034	NHS check	0.559	-0.571	-0.012
-	Health Protection	0.089	-0.063	0.026
-0.006	Public health advice	0.278	-0.252	0.026
-	Child Measurement	0.193	-0.183	0.010
-0.096	Obesity	0.720	-0.695	0.025
-0.022	Physical activity	0.305	-0.263	0.042
-0.692	Substance misuse	5.531	-5.012	0.519
0.442	Smoking	1.578	-1.544	0.034
-0.064	Children 5-19	0.727	-0.753	-0.026
-0.070	Miscellaneous	2.513	-2.301	0.212
<b>-0.038</b>		<b>16.337</b>	<b>-15.432</b>	<b>0.905</b>
<b>Corporate and democratic core</b>				
2.710	Democratic representation and management	2.126	-0.010	2.116
2.856	Corporate management	2.776	-	2.776
<b>5.566</b>		<b>4.902</b>	<b>-0.010</b>	<b>4.892</b>
<b>Non-distributed costs</b>				
-9.086	(we cannot share between services)	1.964	-	1.964
<b>353.690</b>	<b>Total spending on services</b>	<b>773.001</b>	<b>-404.040</b>	<b>368.961</b>

## Note 9: Amounts Reported for Resource Allocation Decisions

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

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

### Directorate Income and Expenditure 2014/15

	Adults & Health (inc. Public Health) - Commissioning & Ops £ millions	Children & Learning - Commissioning & Ops £ millions	Learning Disabilities - Ops £ millions	Highways, Traffic & Transport £ millions	Other Direct Services £ millions	Total £ millions
Fees, charges & other service income	74.911	7.963	4.317	8.263	81.353	176.807
Government grants	15.899	47.618	0.038	1.545	202.892	267.992
<b>Total Income</b>	<b>90.810</b>	<b>55.581</b>	<b>4.355</b>	<b>9.808</b>	<b>284.245</b>	<b>444.799</b>
Employee expenses	17.298	32.240	28.797	7.439	180.616	266.390
Other operating expenses	181.90	91.216	3.978	38.012	136.261	451.370
Support Service Recharges	10.591	17.577	3.924	-1.467	14.025	44.650
<b>Total operating expenses</b>	<b>209.792</b>	<b>141.033</b>	<b>36.699</b>	<b>43.984</b>	<b>330.902</b>	<b>762.410</b>
<b>Net cost of services</b>	<b>118.982</b>	<b>85.452</b>	<b>32.344</b>	<b>34.176</b>	<b>46.657</b>	<b>317.611</b>

## Directorate Income and Expenditure 2013/14

	Adults & Health (inc. Public Health) - Commissioning & Ops £ millions	Children & Learning - Commissioning & Ops (Restated) £ millions	Learning Disabilities - Ops £ millions	Highways, Traffic & Transport £ millions	Other Direct Services £ millions	Total £ millions
Fees, charges & other service income	71.088	13.044	3.144	8.199	68.703	164.178
Government grants	14.647	49.278	0.811	18.576	197.746	281.058
<b>Total Income</b>	<b>85.735</b>	<b>62.322</b>	<b>3.955</b>	<b>26.775</b>	<b>266.449</b>	<b>445.236</b>
Employee expenses	16.622	37.216	29.236	6.416	177.559	267.049
Other operating expenses	173.581	95.210	2.711	31.635	126.974	430.111
Support Service Recharges	12.675	14.649	5.030	4.441	9.190	45.985
<b>Total operating expenses</b>	<b>202.878</b>	<b>147.075</b>	<b>36.977</b>	<b>42.492</b>	<b>313.723</b>	<b>743.145</b>
<b>Net cost of services</b>	<b>117.143</b>	<b>84.753</b>	<b>33.022</b>	<b>15.717</b>	<b>47.274</b>	<b>297.909</b>

## Reconciliation to Net Cost of Services in Comprehensive Income & Expenditure Statement

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

2013/14 (Restated) £ millions	Reconciliation to Net Cost of Services in Comprehensive Income & Expenditure Statement	2014/15 £ millions
297.909	Cost of Service in Service Analysis	317.611
-4.254	Add services not included in main analysis	9.048
61.558	Add amounts not in management reports but included in I&E	43.845
<b>355.213</b>	<b>Net Cost of Services in Comprehensive Income &amp; Expenditure Statement</b>	<b>370.504</b>

## Reconciliation to Subjective Analysis

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

2014/15

Reconciliation to Subjective Analysis	Service Analysis £ millions	Services not in analysis £ millions	Not reported to management £ millions	Not included in CIES £ millions	Allocation of recharges £ millions	Net cost of services £ millions	Corporate amounts £ millions	Total £ millions
Fees, charges & other service income	176.807	0.360	25.074	-	15.880	218.121	18.968	237.089
Surplus or deficit on associates and joint ventures	-	-	-	-	-	-	-	-
Interest and investment income	-	-	-	-	-	-	3.057	3.057
Income from council tax/ NNDR	-	-	-	-	-	-	251.401	251.401
Government grants and contributions	267.992	-	-	-	3.194	271.186	149.360	420.546
<b>Total Income</b>	<b>444.799</b>	<b>0.360</b>	<b>25.074</b>	<b>-</b>	<b>19.074</b>	<b>489.307</b>	<b>422.786</b>	<b>912.093</b>
Employee expenses	266.390	5.301	0.547	-	26.266	298.504	-	298.504
Other service expenses	451.370	4.107	14.438	-26.724	37.458	480.649	21.945	502.594
Support service recharges	44.650	-	-	-	-44.650	-	-	-
Depreciation, amortisation and impairment	-	-	80.658	-	-	80.658	-	80.658
Interest payments	-	-	-	-	-	-	43.725	43.725
Precepts & levies	-	-	-	-	-	-	0.793	0.793
Loss on revaluation of current assets held for sale	-	-	-	-	-	-	3.256	3.256
Gain or Loss on disposal of fixed assets	-	-	-	-	-	-	12.138	12.138
<b>Total operating expenses</b>	<b>762.410</b>	<b>9.408</b>	<b>95.643</b>	<b>-26.724</b>	<b>19.074</b>	<b>859.811</b>	<b>81.857</b>	<b>941.668</b>
<b>Surplus or deficit on the provision of services</b>	<b>317.611</b>	<b>9.048</b>	<b>70.569</b>	<b>-26.724</b>	<b>-</b>	<b>370.504</b>	<b>-340.929</b>	<b>29.575</b>

2013/14

Reconciliation to Subjective Analysis	Service Analysis (Restated) £ millions	Services not in analysis £ millions	Not reported to management £ millions	Not included in CIES £ millions	Allocation of recharges £ millions	Net cost of services (Restated) £ millions	Corporate amounts £ millions	Total (Restated) £ millions
Fees, charges & other service income	164.178	0.041	22.768	-	18.858	205.845	9.555	215.400
Surplus or deficit on associates and joint ventures	-	-	-	-	-	-	-	-
Interest and investment income	-	-	-	-	-	-	4.378	4.378
Income from council tax / NNDR	-	-	-	-	-	-	247.441	247.441
Government grants and contributions	281.058	-	-	-	5.915	286.973	143.104	430.077
<b>Total Income</b>	<b>445.236</b>	<b>0.041</b>	<b>22.768</b>	<b>-</b>	<b>24.773</b>	<b>492.818</b>	<b>404.478</b>	<b>897.296</b>
Employee expenses	267.049	2.981	1.058	-	26.535	297.623	-	297.623
Other service expenses	430.111	-7.194	11.623	-0.807	44.223	477.956	9.642	487.598
Support service recharges	45.985	-	-	-	-45.985	-	-	-
Depreciation, amortisation and impairment	-	-	72.452	-	-	72.452	-0.175	72.277
Interest payments	-	-	-	-	-	-	46.625	46.625
Precepts & levies	-	-	-	-	-	-	0.770	0.770
Loss on revaluation of current assets held for sale	-	-	-	-	-	-	2.845	2.845
Gain or Loss on disposal of fixed assets	-	-	-	-	-	-	68.289	68.289
<b>Total operating expenses</b>	<b>743.145</b>	<b>-4.213</b>	<b>85.133</b>	<b>-0.807</b>	<b>24.773</b>	<b>848.031</b>	<b>127.996</b>	<b>976.027</b>
<b>Surplus or deficit on the provision of services</b>	<b>297.909</b>	<b>-4.254</b>	<b>62.365</b>	<b>-0.807</b>	<b>-</b>	<b>355.213</b>	<b>-276.482</b>	<b>78.731</b>

## Note 10: Other Operating Expenditure

2013/14 (Restated) £millions		2014/15 (Restated) £millions
68.290	(Gain)/losses on the disposal of non-current assets	12.138
2.845	Loss on the revaluation of current assets held for sale	3.256
	Levies:	
0.596	- Environment Agencies	0.624
0.117	- Devon and Severn IFCA	0.112
0.057	- Magistrates Courts	0.057
<b>71.905</b>		<b>16.187</b>

The loss on disposal of non-current assets during 2014/15 was largely due to a significant loss (£12.052m) on the de-recognition of 5 schools who converted to Academy during the year. This loss and other smaller disposal losses were partially offset by a significant gain (£2.191m) recognised in the year on the sale of land at a closed school site in Christchurch and land at Ash Priors Farm.

The 'surplus or deficit from trading activities' in previous years' Statement of Accounts was reported as part of Other Operating Expenditure. This year the 'surplus or deficit from trading activities' is now shown within Financing and Investment Income and Expenditure.

## Note 11: Financing and Investment Income and Expenditure

This includes interest from temporarily investing our revenue balances, the surplus/deficit on our trading activities and the financing income element of a finance lease agreement with Somerset Care Ltd.

2013/14 (Restated) £millions		2014/15 (Restated) £millions
20.668	Interest payable and similar charges	20.210
26.829	Net pensions interest cost (on the defined liability)	24.831
-4.378	Interest receivable and similar income	-3.057
0.087	(Surplus) or deficit from trading activities (see note 14)	2.977
<b>43.206</b>		<b>44.961</b>

## Note 12: Taxation and Non-Specific Grant Income

2013/14 £millions		2014/15 £millions
-188.309	Council Tax income	-190.676
-59.133	National Non-Domestic Rates	-60.325
-108.555	Non-ringfenced government grants	-96.355
-34.549	Capital grants and contributions	-53.005
<b>-390.546</b>		<b>-400.361</b>

### Note 13: Surplus or deficit on revaluation of fixed assets

2013/14 (Restated) £millions		2014/15 £millions
-81.538	Revaluations gains credited to the Revaluation Reserve	-23.178
18.880	Impairment losses charged to the Revaluation Reserve	41.212
<u>-62.658</u>		<u>18.034</u>

### Note 14: Trading Operations

The table below shows the income and spending of each trading unit in the Council.

Total Expenditure £millions	2013/14 Turnover (Income) £millions	Surplus (-) or deficit £millions	Trading unit	Total Expenditure £millions	2014/15 Turnover (Income) £millions	Surplus (-) or deficit £millions
1.600	-1.647	-0.047	Dillington House	1.896	-1.936	-0.040
6.850	-6.628	0.222	Somerset Skills and Learning	8.300	-6.237	2.063
0.335	-0.340	-0.005	Charterhouse	-	-	-
1.753	-1.783	-0.030	Kilve	-	-	-
0.371	-0.405	-0.034	Resources 4 Learning	-	-	-
0.616	-0.635	-0.019	Somerset Music	-	-	-
-	-	-	Support Services for Education	22.031	-21.077	0.954
<u>11.525</u>	<u>-11.438</u>	<u>0.087</u>	<b>Surplus (-) or deficit on trading activities</b>	<u>32.227</u>	<u>-29.250</u>	<u>2.977</u>

The following provides a brief description of each of our trading services.

**Dillington House** is a business unit offering a mix of services to the public, private and voluntary sectors. It provides a programme of courses for adults on a day and residential basis as well as public lectures and music events for the community. A wide range of facilities for conferences and meetings is a key element to the business as is the letting of Dillington for weddings and social events. Accommodation on a group basis is also available.

**Somerset Skills and Learning** provides an extensive range of high quality learning opportunities, accessible to residents and businesses in Somerset and the surrounding areas.

**Support Services for Education** is a newly formed traded unit within Somerset County Council offering a wide variety of support services for all education providers, including maintained schools, academies and other education and early years providers. These services ensure access to the support they need in order to deliver educational excellence for all the children and young people of Somerset.

The former traded units of Kilve Court, Charterhouse, Resources 4 Learning and Somerset Music now form part of the business activities of Support Services for Education.

## Note 15: Pooled Budgets

We work closely with the Somerset Clinical Commissioning Group in many areas. In three areas, we provide the same service, and share our resources to get better value for money and to provide a better service. This is known as a pooled budget. Because we host these pooled budgets, all of the activity is shown in our accounts.

The **Integrated Community Equipment Service's** pooled budget operates under the Health Act 2006. We use the budget to provide community equipment to social services' clients and the clients of the Somerset Clinical Commissioning Group within the Somerset area. Income and expenditure for the year are as follows:

2013/14 £millions	Integrated Community Equipment Service (previously known as the Joint Equipment Service)	2014/15 £millions
	Income from:	
-1.083	Adults and Health Service	-1.144
-0.348	Children and Learning Service	-0.355
-1.475	Somerset Clinical Commissioning Group (Including Continuing Healthcare Income)	-1.380
-	Other Grant Income	-1.098
-0.690	Section 256	-
<u>-3.596</u>	Total income	<u>-3.977</u>
	Less the following spending:	
3.462	Equipment, delivery costs, minor work	3.806
0.084	Management and administration	0.084
<u>3.546</u>	Total spending	<u>3.890</u>
<u><u>-0.050</u></u>	Overspending or underspending (-)	<u><u>-0.087</u></u>

The **Learning Disabilities Service's** pooled budget supports people with a learning disability to improve their quality of life.

2013/14 £millions	Learning Disabilities Service	2014/15 £millions
	Income from:	
-41.701	Adults and Health Service	-46.840
-0.483	Pensions Equalisation Reserve	-0.383
-16.118	Somerset Clinical Commissioning Group	-16.812
-5.782	Income from charges and grant income	-7.786
<u>-64.084</u>	Total income	<u>-71.821</u>
	Less the following spending:	
32.396	Purchasing (independent sector)	38.223
9.934	Residential services	10.041
15.637	Supported housing	15.688
6.214	Day services	6.138
3.602	Community teams	3.767
<u>67.783</u>	Total spending	<u>73.857</u>
<u><u>3.699</u></u>	Overspending or underspending (-)	<u><u>2.036</u></u>

The **Carers Pooled Budget** brings together budgets from Somerset County Council and Somerset Clinical Commissioning Group to provide the provision of a Universal Carers Support Service.

2013/14 £millions	Carers	2014/15 £millions
	Income from:	
-0.204	Adults and Health Service	-0.204
-0.203	Somerset Clinical Commissioning Group	-0.203
-0.122	Earmarked Reserve Drawdown	-0.063
<u>-0.529</u>	Total income	<u>-0.470</u>
	Less the following spending:	
0.404	Universal Carers Support Service	0.407
0.062	CAMHS Assessment Workers	-
-	Carers Support Worker Salary/Running Costs	0.024
<u>0.466</u>	Total spending	<u>0.431</u>
<u><u>-0.063</u></u>	Overspending or underspending (-)	<u><u>-0.039</u></u>

## Note 16: Members' Allowances

The allowances paid to our Members during the year are shown below.

2013/14 £millions		2014/15 £millions
0.569	Basic Allowance	0.572
0.201	Special Responsibility Allowance	0.206
0.060	Travel and Subsistence Expenses	0.060
0.013	Payments to Co-optees	0.012
<u><u>0.843</u></u>		<u><u>0.850</u></u>

## Note 17: Senior Officers' Remuneration

Under regulations, we must show the number of our staff who are paid more than £50,000 a year. This is shown in the table below. Pay includes:

- Salary, not including employer's pension contributions;
- Taxable travel and other expenses; and
- Non-taxable payments when employment ends.

**Table 1 – Staff paid more than £50,000 (shown in £5,000 bands) for the financial year ended 31 March 2015**

2013/14			2014/15		
Number of employees		Employee pay bands	Number of employees		
Schools	Non-schools		Schools	Non-schools	
75	23	£50,000 to £54,999	69	31	
37	29	£55,000 to £59,999	40	13	
27	12	£60,000 to £64,999	23	22	
10	7	£65,000 to £69,999	16	6	
3	5	£70,000 to £74,999	3	4	
4	1	£75,000 to £79,999	4	2	
3	1	£80,000 to £84,999	1	4	
2	6	£85,000 to £89,999	3	1	
-	1	£90,000 to £94,999	-	2	
-	2	£95,000 to £99,999	-	3	
-	3	£100,000 to £104,999	-	2	
-	-	£105,000 to £109,999	-	1	
-	-	£110,000 to £114,999	-	-	
1	-	£115,000 to £119,999	-	1	
-	-	£120,000 to £124,999	-	-	
-	-	£125,000 to £129,999	-	-	
-	1	£130,000 to £134,999	-	-	
-	-	£135,000 to £139,999	-	-	
-	-	£140,000 to £144,999	-	-	
-	-	£145,000 to £149,999	-	-	
-	-	£150,000 to £154,999	-	1	
-	-	£155,000 to £159,999	-	-	
-	-	£160,000 to £164,999	-	-	
-	-	£165,000 to £169,999	-	-	
-	-	£170,000 to £174,999	-	-	
-	-	£175,000 to £179,999	-	-	
-	1	£180,000 to £184,999	-	-	

The following tables set out the salaries and wages our senior officers earned during 2013/14 and 2014/15. We have produced this table following LAAP Bulletin 85 and have named the staff who earned more than £150,000 (excluding compensation loss of office payments and pension contributions).

**Table 2 – Actual salary and benefits paid for the financial year ended 31 March 2014**

Post holder information (Post title and name)	Salary (including fees and allowances) £	Compensation for loss of office £	Benefits in kind £	Total wages and benefits but not including pension contributions 2013/14 £	Employer's pension contributions £	Total wages and benefits including pension contributions 2013/14 £
<b>Chief Executive</b>						
Sheila Wheeler Note 1	140,000	40,000	-	180,000	18,900	198,900
<b>Executive Leadership Team - reporting to CEO</b>						
- Group Director of Operations Note 2	133,300	-	-	133,300	18,000	151,300
- Public Health Director Note 3	101,200	-	200	101,400	14,100	115,500
- Finance and Performance Director	100,000	-	-	100,000	13,500	113,500
- Business Development Director	100,000	-	-	100,000	13,500	113,500
- Lead Commissioner Adults & Health	98,200	-	-	98,200	13,300	111,500
- Lead Commissioner Children & Learning Note 4	318,500	-	-	318,500		318,500
- Lead Commissioner Economic & Community Infra	85,000	-	-	85,000	11,500	96,500
- Customers & Communities Director Note 5	-	-	-	-	-	-
<b>Senior Leadership Team - reporting to ELT</b>						
- Economic & Community Infrastructure Operations Director Note 6	129,600	-	-	129,600	5,600	135,200
- Deputy Director of Children's Services Note 7	275,000	-	-	275,000		275,000
- Interim Operations Director Children and Families Note 8	148,400	-	-	148,400		148,400
- Learning & Achievement Operations Director	86,000	-	-	86,000	11,600	97,600
- Learning Disabilities Operations Director	85,000	-	-	85,000	11,500	96,500
- HR & OD	85,000	-	-	85,000	11,500	96,500
- Adults & Health Operations Director	85,000	-	-	85,000	11,500	96,500
County Solicitor	59,800	-	-	59,800	8,100	67,900
Group Manager Community Governance / Monitoring Officer	56,600	-	-	56,600	7,600	64,200

**Note 1** – The Chief Executive Officer left during 2013-14, the annualised salary for this post would have been £160,000

**Note 2** – Covered as deputy CEO.

**Note 3** – Public Health now forms part of the County Councils responsibilities.

**Note 4** - During 2013/14 the post of Lead Commissioner for Children & Learning was filled via an agency service. The charge to the authority for the year totalled £318,500

**Note 5** - The post of Customers & Communities Director was left vacant during 2013/14.

**Note 6** – During 2013/14 the post of Economic & Community Infrastructure Operations Director was filled via an agency service up to November 2013. The charge to the authority totalled £88,000. This post was permanently filled for the remaining part of the year.

**Note 7** – During 2013/14 the post of Deputy Director of Children's Services was filled via an agency service. The charge to the authority for the year totalled £275,000

**Note 8** – During 2013/14 the post of Interim Operations Director Children and Families was filled via an agency service. The charge to the authority for the year totalled £148,400.

**Table 3 – Actual salary and benefits paid for the financial year ended 31 March 2015**

Post holder information (Post title and name)	Salary (including fees and allowances)	Compensation for loss of office	Benefits in kind	Total wages and benefits but not including pension contributions 2014/15	Employer's pension contributions	Total wages and benefits including pension contributions 2014/15
	£	£	£	£	£	£
<b>Chief Executive</b>						
Patrick Flaherty	151,400	-	-	151,400	20,400	171,800
<b>Executive Leadership Team - reporting to CEO</b>						
- Group Director of Operations	102,400	-	-	102,400	13,800	116,200
<i>Note 1</i>						
- Public Health Director	105,000	-	-	105,000	14,700	119,700
- Finance and Performance Director	102,800	-	-	102,800	13,900	116,700
- Business Development Director	100,000	-	-	100,000	13,500	113,500
- Lead Commissioner Adults & Health	204,200	-	-	204,200	13,200	217,400
<i>Note 2</i>						
- Lead Commissioner Children & Learning	280,400	-	-	280,400	800	281,200
<i>Note 3</i>						
- Lead Commissioner Economic & Community Infra	85,000	-	-	85,000	11,500	96,500
- Customers & Communities Director	65,600	-	-	65,600	8,900	74,500
<i>Note 4</i>						
<b>Senior Leadership Team - reporting to ELT</b>						
- Economic & Community Infrastructure Operations Director	100,000	-	-	100,000	13,500	113,500
- Deputy Director of Children's Services	156,700	-	-	156,700	-	156,700
<i>Note 5</i>						
- Interim Operations Director Children and Families	91,200	-	-	91,200	8,900	100,100
<i>Note 6</i>						
- Learning & Achievement Operations Director	42,600	48,700	-	91,300	5,800	97,100
<i>Note 7</i>						
- Learning Disabilities Operations Director	85,000	-	-	85,000	11,500	96,500
- HR & OD	23,300	-	-	23,300	2,000	25,300
<i>Note 8</i>						
- Adults & Health Operations Director	86,900	-	-	86,900	11,800	98,700
<i>Note 9</i>						
County Solicitor	63,500	-	-	63,500	8,600	72,100
Group Manager Community Governance / Monitoring Officer	63,500	-	-	63,500	8,600	72,100

**Note 1** – This role was vacant during April & May. The post was filled by an SCC employee from June 2014 onwards.

**Note 2** – An SCC employee was in this post for a full year (£110,800) but due to sickness the work was covered by a consultant from November 2014 to March 2015 (£106,600).

**Note 3** – This position was covered by consultants from April 2014 up to March 2015 at a cost of £274,800. An SCC employee then covered the post for March.

**Note 4** – This role was vacant during April & May. The post was filled by an employee from June 2014 onwards.

**Note 5** – This position was covered by a consultant from April 2014 until January 2015. The role was vacant during February and March 2015.

**Note 6** – A consultant covered this role from April to June 14 at a cost of £25,400. The role was then filled by an SCC employee for the rest of the year.

**Note 7** – From October 2014 the Learning & Achievement Operations Director post no longer exists.

**Note 8** – This position was partly covered by two SCC employees from April 14 to October 14 only.

**Note 9** – The Adults and Health Operations Director role was covered by two SCC staff during 2014/15

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

Exit package cost band (inc. special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each cost band	
	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14 £millions	2014/15 £millions
£0 - £20,000	65	25	33	132	98	157	0.722	1.029
£20,001 - £40,000	11	1	3	10	14	11	0.334	0.275
£40,001 - £60,000	1	-	6	1	7	1	0.331	0.049
£60,001 - £80,000	-	-	4	-	4	-	0.281	-

## Note 18: Termination Benefits

Somerset County Council terminated the contracts of 169 employees in 2014/15, incurring liabilities of £1.353 million. This is analysed below between Local Authority staff and Teachers, and details any significant reasons for terminations.

### Local Authority

The redundancy total includes; £1.071 million payable to 126 staff who took voluntary redundancy or early retirement. A further £0.053 million was paid to 17 staff who were given compulsory redundancy, of which 5 were due to a managerial restructure of libraries and focussing the mobile library service to meet need and demand. The remaining compulsory redundancies were due to school restructures.

### Teachers

Included in the above statement of £1.353 million, the Authority terminated the contracts of 26 teachers in 2014/15, incurring liabilities of £0.229 million. These terminations can be split between compulsory redundancies (9 teachers) and other termination reasons (17 teachers), and can be analysed as follows:

- Primary 14 Teachers
- Secondary 9 Teachers
- Special 1 Teachers
- Virtual/ Non-school specific 2 Teachers

## Note 19: External Audit Costs

We are required to disclose the fees payable to auditors' areas of work are set by the Code of Audit Practice. Their work includes our Statement of Accounts, the audit of grant claims and inspection of our processes, as well as audit work on the Somerset Waste Partnership accounts. A summary of the amounts that we pay for this audit work is shown in the following table:

2013/14 £millions		2014/15 £millions
	Audit fees	
0.148	– Main audit (including the Somerset Waste Partnership)	0.148
0.005	– Grant claims	0.002
0.005	– Other audit costs	-0.005
<b>0.158</b>	<b>In year audit costs</b>	<b>0.145</b>
-0.022	Rebate from Audit commission for previous overcharge on audit fee	-0.015
<b>0.136</b>		<b>0.130</b>

## Note 20: 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). An element of DSG is recouped to by the Department to fund academy schools in the council's area.

DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2011. 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 receivable for 2014/15 are shown in the following table:

	Central spending £millions	Individual Schools Budget £millions	Total £millions
Final Dedicated Schools Grant for 2014/15			
- before Academy Recoupment	-53.269	-281.523	-334.792
Less: Academy figure recouped for 2014/15	0.589	118.922	119.511
Less: EFA Direct funded places recouped for 2014/15	1.111	-	1.111
<b>Total Dedicated Schools Grant after Academy Recoupment for 2014/15</b>	<b>-51.569</b>	<b>-162.601</b>	<b>-214.170</b>
Plus: Brought Forward from 2013/14	-2.273	-	-2.273
<b>Final budgeted distribution for 2014/15</b>	<b>-53.842</b>	<b>-162.601</b>	<b>-216.443</b>
Less actual central expenditure	50.811	-	50.811
Less: Actual ISB deployed to schools	-	162.601	162.601
<b>Carry-forward to 2015/16</b>	<b>-3.031</b>	<b>-</b>	<b>-3.031</b>

## Note 21: Grant Income

The Authority credited the following grants, capital contributions and capital donations to the Comprehensive Income and Expenditure Statement in 2014/15:

2013/14 £millions		2014/15 £millions
<b>Credited to Taxation and Non Specific Grant Income</b>		
-89.689	- Revenue Support Grant	-76.141
-2.042	- Council Tax Freeze Grant	-2.090
-0.273	- Lead Local Flood Authority Grant	-0.273
-	- Bellwin	-1.036
-0.134	- Inshore Fisheries Grant	-0.134
-2.578	- New Homes Bonus	-3.024
-	- Business Rates Cap	-1.544
-0.527	- Rights to Free Travel	-0.431
-4.297	- Building Schools for the Future	-4.435
-0.481	- Community Rights to Challenge	-0.009
-1.128	- Adoption Reform Grant	-
-4.611	- Education Services Grant - Serv for LA	-4.688
-1.014	- Education Services Grant - Universal Ser	-1.010
-0.235	- Effic Supt for Serv in Sparse Area Gnt	-
-0.441	- Local Reform and Community Voices Gnt	-0.451
-1.105	- Social Fund	-1.089
-7.339	- Standards Fund Capital Grant	-7.988
-27.675	- Department for Transport Capital Grant	-30.718
0.000	- Willowdown Primary Academy School	-3.855
0.465	- Other capital grants / Contributions	-10.444
<b>-143.104</b>	<b>Total</b>	<b>-149.360</b>
<b>Credited to Services</b>		
-219.640	- Dedicated Schools Grant	-214.852
-8.835	- Standards Fund	-4.293
-0.192	- Devolved Formula Capital Grant	-
-0.693	- Adoption Reform Grants	-0.466
-7.955	- Pupil Premium Grant	-10.259
-0.614	- Music Education Grant	-0.542
-	- Special Educational Needs Reform Grant	-1.051
-0.531	- LEP - Start Up Fund	-0.520
-0.500	- Somerset Recovery Scheme	-
-0.817	- 16-19 Funding	-2.316
-3.308	- Sixth Form Funding (S6F)	-3.799
-1.039	- Primary PE and Sports Grant	-1.600
-5.016	- Skills Funding Agency (formerly Learning and Skills Council)	-3.213
-0.620	- Youth Justice	-0.615
-1.535	- Troubled Families	-1.103
-2.680	- Children and Young People services – other grants	-1.628
-0.534	- Social Care Reform Grant	-
-14.103	- Public Health grant	-15.513
-0.710	- DEFRA - AONB & LARC	-0.440
-0.343	- European Agricultural Fund for Rural Development - LARC	-
-	- Universal Infants Free School Meals	-3.212
-10.000	- Somerset Levels 20 year plan	-
-7.809	- Severe weather recovery scheme	-
-3.763	- Grant from Broadband Delivery UK	-19.120
-2.423	- Economic, Communities & Infrastructure services - other grants	-2.455
-0.201	- Adult services – other grants	-0.277
-2.213	- Building Schools for the Future contributions	-2.403
-0.189	- Other services grants	-0.558
-	- Somerset Rivers Authority	-1.900
-	- Bellwin	-0.357
<b>-296.263</b>	<b>Total</b>	<b>-292.492</b>

## **Note 22: Related Parties**

Somerset County Council is required to disclose material transactions with related parties; these are bodies or individuals that have the potential to control or significantly influence the Council or to be controlled or significantly 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 the ability to control or exercise significant influence over the general operations of the Council. It is responsible for providing the statutory framework, within which the Council operates, it provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties. The grants received from Central Government are disclosed in Note 21.

### **Officers**

Officers of the Authority are bound by the rules and procedures of the Council's Constitution. Officers are required to register any personal interests which may affect their judgement as an employee of the Council. Senior officers were also required to declare transactions with the Authority. No material transactions have been identified.

### **Members**

Elected Members of the Council have direct control over the Council's financial and operating policies. The total of Members' allowances paid in 2014/15 is shown in Note 16. The Members' Code of Conduct requires Members to declare interests in related parties in the Register of Members' Interests. The Register is available on the Council's website and is open to public inspection at County Hall during office hours. Members were also asked to declare separately transactions with the Authority. No material transactions between the Council and businesses in which members have a controlling interest have been identified.

A number of Members are also members of other local public bodies, including district, parish and town councils, academies and NHS trusts. During 2014/15 a variety of transactions took place between the Council and these organisations that are deemed not to be material.

### **Other Related Parties**

The PLUSS Organisation, a company limited by guarantee, is an associate of the County Council, in which the Council has a 25% share of voting rights. In 2014/15 the Council paid £0.190 million to PLUSS.

Southwest One provides a number of services to the Authority through a contract. These services include elements of finance, facilities management, property services, payroll and technology services. In 2014/15 expenditure on services from Southwest One, including contract payments, was £26.497 million and income received from Southwest One, including payments for salaries of staff seconded from the Council to Southwest One, was £11.214 million. At 31/03/2015 we had a Southwest One debtor of £0.172 million and a Southwest One creditor of £0.011 million reported within our accounts.

The Authority has significant influence over various small local companies (21 in total) that provide transport on behalf of the Authority, due to the considerable proportion of business provided to them by the Authority. The total paid to these companies during 2014/15 was £7.167 million.

Futures for Somerset, a long term strategic partnership, is an associate of the County Council, in which the Council has a 17% share of voting rights and influence over its long term plans. In 2014/15 the Council paid £0.711 million to Futures for Somerset.

## Note 23: Property, Plant and Equipment

Movements in 2013/14								
	Other Land & Buildings (Restated) £millions	Vehicles, Plant & Equipment (Restated) £millions	Infrastructure Assets £millions	Community Assets £millions	Surplus Assets £millions	Assets Under Construction £millions	Total (Restated) £millions	PFI assets included in PPE £millions
<b>Cost or valuation</b>								
At 1 April 2013	580.688	61.138	473.218	0.822	4.196	11.807	1,131.869	-
Additions	4.966	2.905	23.552	-	-	11.729	43.152	-
Disposals	-80.231	-1.392	-	-	-	-	-81.623	-
Reclassifications	1.384	1.187	-	-	-1.970	-10.215	-9.614	-
Revaluation Increase/decrease (-):								
- to Revaluation Reserve *	48.479	-	-	-	2.145	-	50.624	-
- to Surplus/Deficit on the provision of service	-9.148	-	-	-	-	-	-9.148	-
At 31 March 2014	<u>546.138</u>	<u>63.838</u>	<u>496.770</u>	<u>0.822</u>	<u>4.371</u>	<u>13.321</u>	<u>1,125.260</u>	<u>-</u>
<b>Depreciation and impairments</b>								
At 1 April 2013	-31.234	-32.331	-187.573	-0.740	0.040	-0.178	-252.016	-
Charge for 2013/14	-11.808	-8.826	-19.543	-0.030	-0.094	-	-40.301	-
Disposals	7.771	0.725	-	-	-	-	8.496	-
Reclassifications	0.322	0.200	-	-	-0.050	-	0.472	-
Revaluations *	12.219	-	-	-	0.087	-	12.306	-
Impairment Losses (-)/reversals:								
- to Revaluation Reserve	-0.271	-	-	-	-	-	-0.271	-
- to Surplus/Deficit on the provision of service	-0.806	-0.317	-	-	-	-	-1.123	-
At 31 March 2014	<u>-23.807</u>	<u>-40.549</u>	<u>-207.116</u>	<u>-0.770</u>	<u>-0.017</u>	<u>-0.178</u>	<u>-272.437</u>	<u>-</u>
<b>Balance sheet amount at 1 April 2013</b>	<b><u>549.454</u></b>	<b><u>28.807</u></b>	<b><u>285.645</u></b>	<b><u>0.082</u></b>	<b><u>4.236</u></b>	<b><u>11.629</u></b>	<b><u>879.853</u></b>	<b><u>-</u></b>
<b>Balance sheet amount at 31 March 2014</b>	<b><u>522.331</u></b>	<b><u>23.289</u></b>	<b><u>289.654</u></b>	<b><u>0.052</u></b>	<b><u>4.354</u></b>	<b><u>13.143</u></b>	<b><u>852.823</u></b>	<b><u>-</u></b>
<b>Nature of asset holding at 31 March 2014</b>								
Owned	496.040	22.132	289.654	0.052	4.354	13.143	825.375	-
Finance lease	26.291	1.157	-	-	-	-	27.448	-
	<u>522.331</u>	<u>23.289</u>	<u>289.654</u>	<u>0.052</u>	<u>4.354</u>	<u>13.143</u>	<u>852.823</u>	<u>-</u>

**Movements in 2014/15**

	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total	PFI assets included in PPE
	£millions	£millions	£millions	£millions	£millions	£millions	£millions	£millions
<b>Cost or valuation</b>								
At 1 April 2014	546.138	63.838	496.770	0.822	4.371	13.321	1,125.260	-
Additions	10.711	4.923	32.500	-	1.064	16.759	65.957	-
Disposals	-15.492	-7.222	-	-	-0.289	-0.079	-23.082	-
Reclassifications	1.278	1.527	-	-	1.045	-5.549	-1.699	-
Revaluation Increase/decrease (-):								
- to Revaluation Reserve *	-36.754	-	-	-	-0.185	-	-36.939	-
- to Surplus/Deficit on the provision of service	-7.299	-	-	-	-0.086	-	-7.385	-
At 31 March 2015	<u>498.582</u>	<u>63.066</u>	<u>529.270</u>	<u>0.822</u>	<u>5.920</u>	<u>24.452</u>	<u>1,122.112</u>	<u>-</u>
<b>Depreciation and impairments</b>								
At 1 April 2014	-23.807	-40.549	-207.116	-0.770	-0.017	-0.178	-272.437	-
Charge for 2014/15	-12.100	-8.328	-20.845	-0.018	-0.152	-	-41.443	-
Disposals	0.738	6.595	-	-	-	0.016	7.349	-
Reclassifications	0.234	-0.001	-	-	-0.143	-	0.090	-
Revaluations *	19.170	-	-	-	0.163	-	19.333	-
Impairment Losses (-)/reversals:								
- to Revaluation Reserve	-0.347	-	-	-	-0.081	-	-0.428	-
- to Surplus/Deficit on the provision of service	-0.233	-	-	-	-0.083	-	-0.316	-
At 31 March 2015	<u>-16.345</u>	<u>-42.283</u>	<u>-227.961</u>	<u>-0.788</u>	<u>-0.313</u>	<u>-0.162</u>	<u>-287.852</u>	<u>-</u>
<b>Balance sheet amount</b>								
<b>at 1 April 2014</b>	<u>522.331</u>	<u>23.289</u>	<u>289.654</u>	<u>0.052</u>	<u>4.354</u>	<u>13.143</u>	<u>852.823</u>	<u>-</u>
<b>Balance sheet amount</b>								
<b>at 31 March 2015</b>	<u>482.237</u>	<u>20.783</u>	<u>301.309</u>	<u>0.034</u>	<u>5.607</u>	<u>24.290</u>	<u>834.260</u>	<u>-</u>
<b>Nature of asset holding</b>								
<b>at 31 March 2015</b>								
Owned	457.184	19.867	301.309	0.034	5.607	24.290	808.291	-
Finance lease	25.053	0.916	-	-	-	-	25.969	-
	<u>482.237</u>	<u>20.783</u>	<u>301.309</u>	<u>0.034</u>	<u>5.607</u>	<u>24.290</u>	<u>834.260</u>	<u>-</u>

## Depreciation

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

- Buildings – 20 to 50 years
- Leased Land and buildings – dependant on lease term
- Mobile Classrooms – 40 years
- Vehicles – 5 to 15 years
- Other Plant, Furniture & Equipment – 10 years
- IT Equipment – 4 to 7 years
- Infrastructure – 25 years
- Community assets – 10 years

## Capital Commitments

At 31 March 2015, the Authority anticipated investing £99.465m (£113.6m at 31 March 2014) in the construction or enhancement of Property, Plant, Equipment and Infrastructure during 2015/16 and future years. Some of this will be for schemes that have not yet started. Within this figure, however, we have major contractual commitments for a number of schemes that are already in progress. These include:

- £9.437m for the Superfast Broadband Programme
- £3.055m for the remainder of the Taunton Northern Inner Distributor Road
- £1.994m Contracts in relation to SMART Office
- £0.935m for new classroom extension at Wembdon St George Primary School

Similar commitments listed at 31 March 2014 were £41.328m.

In addition to the individual items above we have the following contracts:

1. An on-going contract for the procurement of the highways major repairs that will result in an estimated capital expenditure of between £20 million and £24 million in 2014/15 (£21-£25 million in 2014/15). These payments will relate to new projects in 2015/16 and are in addition to the specific project information shown above.
2. A framework contract to undertake capital works to maintain and extend the life of bridges with an estimated value of between £1.5 million and £2.0 million per annum.
3. A framework contract to undertake capital works for Highways Resilience Measures for Flooding with an estimated value of between £2.5 million and £3.5 million.
4. A framework contract to undertake capital works for the Levels & Moors 20 Year plan with an estimated value of £2.4 million.

## Revaluations

The Authority carries out annual valuations that allow it to consider the entire asset portfolio for all property required to be measured at fair value, whilst retaining a rolling programme that ensures all assets are valued at least every five years. All valuations were carried out internally. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors (RICS). We do not revalue our vehicles, plant, community assets, infrastructure, furniture and equipment or assets under construction; depreciated historic cost is used as a proxy for fair value. The significant assumptions applied in estimating the fair values are:

- Specialist properties (such as Schools) have been valued using the Depreciated Replacement Cost (DRC) method;
- Other non-specialist properties (including those classified as surplus to requirements) have been valued on the basis of Existing Use Value (EUV), in accordance with UKPS 1.3 of the RICS Valuation Standards;
- Assets classified as 'Held for Sale' are initially valued using the fair value measure appropriate to the class in which they were held when the Assets Held for Sale criteria were satisfied. This value is then compared to the fair value of the asset less costs to sell (based on market value net of the incremental costs directly attributable to the disposal of the asset). The assets valuation is then reduced (where applicable) to the lower of these two values.

	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	PPE Under Construction	Total
	£millions	£millions	£millions	£millions	£millions	£millions	£millions
Carried at historical cost	-	20.783	301.309	0.034	-	24.290	346.416
Valued at fair value as at:							
31 March 2015	368.863	-	-	-	5.607	-	374.470
31 March 2014	64.589	-	-	-	-	-	64.589
31 March 2013	21.483	-	-	-	-	-	21.483
31 March 2012	9.322	-	-	-	-	-	9.322
31 March 2011	17.980	-	-	-	-	-	17.980
<b>Total cost or valuation</b>	<b>482.237</b>	<b>20.783</b>	<b>301.309</b>	<b>0.034</b>	<b>5.607</b>	<b>24.290</b>	<b>834.260</b>

## Note 24: Intangible Non Current Assets

Somerset County Council classifies its software and software licences, where material, as intangible non current assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of property, plant and equipment.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Authority.

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation charge of £0.382 million for 2014/15 was charged to the following service areas:

- £0.071 million was charged to the SAP Transformation cost centre and then absorbed as an overhead across all the service headings in the cost of services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.
- The remaining amortisation of £0.311 million was charged to Community Services for the AIS system (Social Care) and the Heritage website (Heritage Services).

The movement on intangible asset balances during the year is as follows:

2012/13 £millions	2013/14 £millions		2014/15 £millions
		<b>Balance at start of year:</b>	
2.853	2.807	– Gross carrying amount	3.179
-0.581	-0.890	– Accumulated amortisation	-1.396
<b>2.272</b>	<b>1.917</b>	<b>Net carrying amount at start of year</b>	<b>1.783</b>
		<b>Movement in year:</b>	
0.004	0.026	Purchases	0.057
-0.325	-0.329	Amortisation for the period	-0.382
-	-	Retirement	-0.024
-0.034	0.169	Other changes – Transferred from assets under construction	-
<b>1.917</b>	<b>1.783</b>	<b>Net carrying amount at end of year</b>	<b>1.434</b>

There is one item of capitalised software that is individually material to the financial statements:

	at 31 March 2013 £millions	Carrying amount at 31 March 2014 £millions	at 31 March 2015 £millions	Remaining Amortisation Period at 31 March 2015
SAP system licences (Integrated finance and payroll system)	1.424	1.353	1.282	18 years

## Note 25: Impairment Losses

During 2014/15, the Authority has recognised an impairment loss of £0.744 million to its property, plant and equipment non-current assets. The majority of the loss, £0.566m, can be attributed to the impairment of Brock House children's centre at Norton Fitzwarren.

The remaining loss can be allocated to the impairment of various assets becoming operational and to capital expenditure that was required to make good a number of our properties that were written-off to revenue in the year. These disclosures are consolidated in Note 23 that reconciles the movements over the year in the property, plant and equipment balances.

## Note 26: Assets Held For Sale

The majority of our assets held for sale during 2014/15 were county farms, the industrial units at Taunton Apple Business Centre and The Northgate Complex in Bridgwater. This is all reflected in the table shown below:

Current 2012/13 £millions	Current 2013/14 £millions		Current 2014/15 £millions
3.697	1.327	Balance outstanding at start of year	6.468
		<b>Assets newly classified as held for sale:</b>	
1.390	8.972	Property, plant and equipment	1.609
0.165	-	Spend on assets held for sale	0.077
-	-	Revaluation losses	-
-0.666	-2.845	Impairment losses	-3.255
		<b>Assets declassified as held for sale:</b>	
-0.172	-	Property, plant and equipment	-
-3.087	-0.986	Assets sold	-1.790
<b>1.327</b>	<b>6.468</b>	<b>Balance outstanding at year end</b>	<b>3.109</b>

## Note 27: Leases

### Authority as Lessee

#### Finance Leases

The Council has acquired a number of libraries, the Museum of Somerset, Dillington House (our residential centre for professional development, adult education and the arts), and a number of waste recycling vehicles under finance lease arrangements. We also report a number of Voluntary Controlled (VC) and Community schools as being held under a finance lease type arrangement.

The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

	31 March 2013 (Restated) £millions	31 March 2014 (Restated) £millions	31 March 2015 £millions
Other Land and Buildings	28.924	26.291	25.053
Vehicles, Plant and Equipment	1.398	1.157	0.916
	<b>30.322</b>	<b>27.448</b>	<b>25.969</b>

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

Included within the minimum lease payment commitments for 2014/15(below) are the finance lease liability and finance costs for the BSF Bridgwater PFI scheme. Although the schools have been de-recognised from our accounts (due to control lying with the Bridgwater Education Trust) the lease rental payments are still payable and are therefore included within the total minimum lease payments. See note 28 for further details.

The total minimum lease payments are made up of the following amounts:

2013/14 £millions		2014/15 £millions
	Finance lease liabilities (net present value of minimum lease payments):	
0.759	- Current	0.845
46.539	- Non Current	45.695
72.182	Finance costs payable in future years	68.662
<b>119.480</b>	<b>Minimum lease payments</b>	<b>115.202</b>

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

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2014 £millions	31 March 2015 £millions	31 March 2014 £millions	31 March 2015 £millions
Not later than one year	5.205	5.269	0.759	0.845
Later than one year and not later than five years	20.795	20.737	3.654	3.723
Later than five years	93.480	89.196	42.885	41.971
	<b>119.480</b>	<b>115.202</b>	<b>47.298</b>	<b>46.539</b>

The minimum lease payments include rents that are reliant on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2014/15, £0.031m contingent rents were paid by the Authority (£0.012m in 2013/14).

The Authority has sub-let part of Taunton Museum (held under a finance lease) as an operating lease. At 31 March 2015, the minimum lease payments expected to be received under non-cancellable sub-leases was £0.144m (not leased at 31 March 2014).

### Operating Leases

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

Operating Leases	31 March 2014		31 March 2015	
	Land & Buildings £millions	Vehicles & Equipment £millions	Land & Buildings £millions	Vehicles & Equipment £millions
Not later than one year	0.965	0.085	0.958	0.183
Later than one year and not later than five years	3.108	0.076	3.059	0.267
Later than five years	4.462	-	4.373	-
	<b>8.535</b>	<b>0.161</b>	<b>8.390</b>	<b>0.450</b>

The Authority has sub-let some of the assets acquired under operating leases. At 31 March 2015, the minimum lease payments expected to be received under non-cancellable sub-leases were £0.197m (£0.121m at 31 March 2014).

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

	31 March 2014 £millions	31 March 2015 £millions
Minimum Lease Payments	0.064	0.070
Less - Sub-lease payments receivable	-0.012	-0.047
	<b>0.052</b>	<b>0.023</b>

## Authority as Lessor

### Finance Leases

The Authority has leased out a number of its elderly care home properties to Somerset Care Ltd on a finance lease with a remaining term of 86 years. The Authority has also leased out (for a peppercorn rent) a section of Shire Hall to the Secretary of State for the Environment on a finance lease with a remaining term of 101 years and also the Rural Life Barn museum to the Somerset Preservation Trust with a remaining term of 78 years. We did not acquire any of these assets specifically for the purpose of letting under finance leases.

The Authority has a gross investment in the lease, made up of the minimum lease payments expected to be received over the remaining term and the residual value anticipated for the property when the lease comes to an end. The minimum lease payments comprise settlement of the long-term debtor for the interest in the properties acquired by the lessee and financing income that will be earned by the Authority in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

	31 March 2014 £millions	31 March 2015 £millions
Finance lease debtor (net present value of minimum lease payments):		
- Current	0.028	0.028
- Non Current	20.310	18.305
Unearned Finance Income	71.329	63.340
Gross investment in the lease	<b>91.667</b>	<b>81.673</b>

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

	Gross Investment in the Lease		Minimum Lease Payments	
	31 March 2014	31 March 2015	31 March 2014	31 March 2015
	£millions	£millions	£millions	£millions
Not later than one year	1.073	0.969	1.073	0.969
Later than one year and not later than five years	4.292	3.877	4.292	3.877
Later than five years	86.302	76.827	86.302	76.827
	<b>91.667</b>	<b>81.673</b>	<b>91.667</b>	<b>81.673</b>

During 2014/15, we reviewed our arrangement with Somerset Care Ltd and are confident that the lease payments will continue to be received when they fall due. We have therefore not set aside an allowance for uncollectable amounts in our accounts for 2014/15. This will be reviewed again in 2015/16, and if necessary an allowance for uncollectable amounts will be set aside.

The minimum lease payments include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2014/15, £0.084m contingent rents were receivable by the Authority (£0.090m for 2013/14).

### Operating Leases

The Authority leases out property 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:

Operating Leases	31 March 2014 £millions	31 March 2015 £millions
Not later than one year	0.258	0.240
Later than one year and not later than five years	0.563	0.422
Later than five years	0.827	0.779
	<b>1.648</b>	<b>1.441</b>

## Note 28: Private Finance Initiatives (PFI) and Similar Contracts

### Building Schools for the Future (BSF)

Building Schools for the Future (BSF) was a national Government programme to rebuild or renew every secondary school in England over the next 10 – 15 years.

Negotiations were completed between Somerset County Council and BAM PPP to rebuild Chilton Trinity, Elmwood and Robert Blake schools. Signatures for the contract were exchanged on 23 September 2010, and the construction was completed on 9 November 2012 when the schools were formally opened. After completion of the main school accommodation, further works were undertaken, from this time to between June and August 2013, to complete the external elements of both sites. These works included car parks and landscaping, the latter including significant planting of trees and shrubs as well as completion of external play, recreational and general open space areas.”

The Council, through its schools and partners, has the contractual right to occupy and use the PFI sites for the purpose of delivering education and related functions during ‘core school hours’ each week day and any additional time outside this period the schools may require. Furthermore, outside of these times and on occasional periods of overlap, the rights of access and use are extended for the purpose of delivering Community and Leisure related services with relevant partners. These rights of occupation and use are enforced through the availability and performance measures and penalties mentioned below, specifically in relation to the educational use.

The contractor has taken on the obligation to maintain the constructed buildings to a minimum acceptable condition and to procure and maintain the plant and equipment needed to operate them. The buildings and any plant and equipment installed in them at the end of the contract will be transferred to the Bridgwater Education Trust (BET), for nil consideration.

The Authority only has rights to terminate the contract if it compensates the contractor in full for any outstanding debt and other costs incurred.

Payments for the scheme began in 2011/12 when the first of the assets, a leisure centre, was brought into use. During 2013/14, the payments were increased to include the costs associated with the car park that became operational in the year. These payments will be increased each year by inflation and can be reduced if the contractor fails to meet availability and performance standards identified in the contract.

The remaining payments due to be made under the contract for BSF include a facilities management charge (referred to as the service element) for the schools’ premises costs, and capital financing payments that relate to the total capital and financing costs. The figures shown in the table below do not include any adjustments for inflation.

#### Payments to be made under the BSF contract for liabilities held on the Balance Sheet

	Repayments of Liability £m	Interest Charges £m	Service Charges £m	LifeCycle Replacement £m	Total Payments £m
Within 1 year	0.593	4.391	1.708	0.391	<b>7.083</b>
Within 2 - 5 years	3.185	16.937	6.647	1.565	<b>28.334</b>
Within 6 - 10 years	6.033	19.118	8.309	1.956	<b>35.416</b>
Within 11 - 15 years	9.541	15.610	8.309	1.956	<b>35.416</b>
Within 16 - 20 years	15.090	10.061	8.308	1.956	<b>35.415</b>
Within 21 - 25 years	10.920	2.082	4.286	1.011	<b>18.299</b>
	<b>45.362</b>	<b>68.199</b>	<b>37.567</b>	<b>8.835</b>	<b>159.963</b>

Although the Council is committed to making these payments the leisure centre and new schools will be under the control of the BET and therefore do not appear on our balance sheet. This is also referred to in note 27 (Leases) on page 85.

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed.

The liability outstanding to pay the liability to the contractor for capital expenditure incurred is as follows:

	2013/14	2014/15
	£millions	£millions
Balance outstanding at start of year	44.628	45.877
Payments made during the year	-0.494	-0.515
Capital expenditure incurred in the year	1.743	-
<b>Balance outstanding at year-end</b>	<b>45.877</b>	<b>45.362</b>

The total estimated indexed payments under the contract amount to £205.153 million. These payments are scheduled to be funded from the following revenue streams:

	Proportion of Costs
Central Govt. Grant (PFI Credits)	83.3%
Delegated School Budgets	15.0%
SCC Contribution	1.7%
	<b>100%</b>

## Note 29: Heritage Assets - Five-Year Summary of Transactions

	2010/11 £millions	2011/12 £millions	2012/13 £millions	2013/14 £millions	2014/15 £millions
<b><u>Carrying Value - as at 1 April</u></b>					
Numismatic collections	0.306	0.664	0.781	0.781	0.790
Art collections	-	-	0.004	0.004	0.008
Archaeology	-	-	-	0.016	0.016
Archives	0.380	0.380	0.380	0.380	0.380
Metalwork collections	0.130	0.130	0.130	0.130	0.130
	<b>0.816</b>	<b>1.174</b>	<b>1.295</b>	<b>1.311</b>	<b>1.324</b>
<b><u>Cost of acquisitions of heritage assets</u></b>					
Numismatic collections	0.358	0.117	-	0.009	-
Art collections	-	0.004	-	0.003	0.058
Archaeology	-	-	0.016	-	0.150
Archives	-	-	-	-	-
Metalwork collections	-	-	-	-	-
<b>Total cost of purchases</b>	<b>0.358</b>	<b>0.121</b>	<b>0.016</b>	<b>0.012</b>	<b>0.208</b>
<b><u>Reclassification to/from heritage asset</u></b>					
Numismatic collections	-	-	-	-	-
Art Collections	-	-	-	0.001	-
Archaeology	-	-	-	-	-
Archives	-	-	-	-	-
Metalwork collections	-	-	-	-	-
<b>Total reclassifications</b>	<b>-</b>	<b>0.000</b>	<b>-</b>	<b>0.001</b>	<b>0.000</b>
<b><u>Carrying Value - as at 31 March</u></b>					
Numismatic collections	0.664	0.781	0.781	0.790	0.790
Art Collections	-	0.004	0.004	0.008	0.066
Archaeology	-	-	0.016	0.016	0.166
Archives	0.380	0.380	0.380	0.380	0.380
Metalwork collections	0.130	0.130	0.130	0.130	0.130
<b>Total Carrying Value - as at 31 March</b>	<b>1.174</b>	<b>1.295</b>	<b>1.311</b>	<b>1.324</b>	<b>1.532</b>

Since 1 April 2008, there have been no heritage assets acquired by donation and no charges for impairment losses or revaluation gains/losses have been recognised. There have also been no heritage assets disposed of during this period.

## Note 30: Heritage Assets – Further information on our Museum and Archive Collections

In November 2014 a new entity called The South West Heritage Trust was established taking over the responsibility of Somerset's museum and heritage service. As part of the operating of the service the Authority has transferred all land and buildings to the Trust on leases. The Trust has taken ownership of the ICT, plant and equipment. It is important that the Trust has true operational independence in order to meet the requirements of the Charity Commission, and also to allow Trustees to develop the service in the most appropriate manner.

Somerset County Council will remain the owner of collections and other heritage assets (mentioned in note 29) where that is presently the case, or the depositor body in the case of collections belonging to third parties.

The museum and heritage service collects, preserves, interprets and exhibits the material evidence of humankind and the natural environment, with particular reference to the county of Somerset, for the purposes of inspiration, education and enjoyment. It manages the Museum of Somerset at Taunton Castle, the Somerset Rural Life Museum, Glastonbury, and the Somerset Brick and Tile Museum, Bridgwater.

The origins of the museum's collection lie with the formation of the Somerset Archaeological and Natural History Society in 1849. Amongst the aims of the Society was the creation of a museum and from the beginning they began collecting objects. In 1958 the Society leased the Castle and loaned the collections to Somerset County Council for 49 years, an arrangement that by mutual agreement was extended for a further 49 years in 2008. It is estimated that in total the collection comprises 2.5-3 million objects.

Ownership of the collections lies with many organisations and individuals. The pre-1958 collection is largely owned by Somerset Archaeological and Natural History Society, although it includes a significant number of objects that were placed on loan to the Society and are therefore not owned by them. Post-1958 acquisitions very largely belong to Somerset County Council but they include loans made by individuals, organisations and other museums. Amongst the loans are extensive collections belonging to the Somerset Military Museum Trust and the Glastonbury Antiquarian Society.

Acquisitions continue to be made to the collection in the categories listed below. They come as donations, by purchase and, occasionally, on loan.

The whole of the collection is publicly accessible:

- A proportion of the collection can be seen by visitors to our three museums, the Museum of Somerset, Taunton, the Somerset Rural Life Museum, Glastonbury, and the Somerset Brick and Tile Museum, Bridgwater. The Museum of Somerset and Rural Life Museum open from 10.00-17.00 Tuesday to Saturday and the Brick and Tile Museum from 10.00-16.00 Tuesday and Thursday. In addition, elements of the collection can be seen at other locations, for example, the Glastonbury Lake Village Museum, Glastonbury, Chard Museum and Watchet Boat Museum.
- The majority of the collection is in store at the Somerset Heritage Centre where material is available for viewing by prior appointment from 9.00 until 17.00 Monday to Friday. In addition, there are regular pre-booked public tours of the Heritage Centre which include the museum stores.

## **Heritage Assets of Particular Importance**

### **Geology**

The geological collection contains about thirty thousand rocks, minerals and fossils collected mainly from the historic county of Somerset and from neighbouring areas in North and East Devon, West Dorset and West Wiltshire. It contains scientifically important specimens of national and international significance. The highlights are the Pleistocene mammals, Liassic marine vertebrates, Lower Greensand siliceous marine invertebrates, Liassic insects and the iron and copper minerals from West Somerset. Lower and Middle Jurassic fossil invertebrates form an important subsidiary collection. Many specimens derive from small, hand-operated quarries, such as those at Street and Ilminster that have long ceased to operate or from the bone caves of the Mendip Hills. The collection documents the historical development of the science of geology in Somerset and most of the individual collections date from the mid-19th century to the early 20th century.

The collection of Ice Age mammals is the most scientifically important geological collection in the museum consisting of 18,000 specimens collected from the famous bone caves of the western Mendip Hills and the fluvio-marine deposits (Burtle Beds) of Greylake in the Somerset Levels.

The collection consists of bones, tusks, antlers and teeth of fossil mammals and birds. It represents the most significant Late Pleistocene assemblage in southern England.

We have not reported our Geology collection in the Balance Sheet, as valuations are not available at a cost commensurate to users of the financial statements.

### Biology

The collection consists of an irreplaceable source of local reference and voucher specimens. Apart from a few oddities and exotic additions the material largely derives from the area of pre-1974 Somerset. The collection comprises:

- \* Study skins and mounted specimens - these include a small collection of British mammals and a good range of British bird species from the county together with some great rarities such as the Great Bustard and the White-tailed Sea Eagle.
- \* Birds' Eggs - these include an egg and nest collection from historic Somerset made by W. Wigglesworth, an important ornithologist of the early twentieth century.
- \* Conchological collections - The collection has two components:
  - a large mid-19th century collection of foreign marine and terrestrial shells which includes interesting rarities and items of historical interest, e.g. a small collection of Japanese land snails given in 1951.
  - a good late-19th century collection of British land, freshwater and marine shells containing identified specimens of small and deep-water species, types usually missing from collections.
- \* Entomological collection - The large and diverse insect collection comprises lepidoptera, hymenoptera, diptera, coleoptera and orthoptera. Dominated by butterflies, moths and beetles, it provides the material evidence to support an historical understanding of their state and status within the county.
- \* The herbarium - The collection contains vascular plants, mosses, liverworts, lichens and seaweeds. Together with the insects the herbarium is the most scientifically important collection and is the best documented. There are in excess of 30,000 specimens.

We have not reported our biology collection in the Balance Sheet, as valuations are not available at a cost commensurate to users of the financial statements.

### Archaeology

Material ranges from the Palaeolithic to the 19th century and comprises both chance finds and excavation archives almost exclusively from historic Somerset and overwhelmingly from the area of the post-1974 county. There are some 75,000 small finds (artefacts of metal, bone, glass, stone etc.) along with a large quantity of bulk finds of pottery, stone and animal bone. Particular strengths of the collection lie in the following archaeological archives, some of which are of national importance:-

- Brean Down Bronze Age settlement
- Glastonbury and Meare Lake Villages – Iron Age sites of international importance excavated between 1892 and 1956
- Ham Hill and Cadbury Castle – excavation archives and chance finds acquired over the past 150 years from two of Britain's most important hillforts.
- A nationally important collection of Bronze Age metalwork derived from chance finds and excavations.

The only item we report in our balance sheet is a Roman Bronze Statue of Capricorn. The other items of our archaeology collection have not been reported in the Balance Sheet, as valuations are not available at a cost commensurate to users of the financial statements.

### Ceramics

The collection of Somerset-made ceramics includes earthenware from Donyatt, Wrangway, Nether Stowey and other centres, Brislington and Wincanton tin-glazed earthenware, Nailsea glass, Elton ware and examples of work of 20th and 21st-century craft potters;

There is an extensive collection of non-British pottery from China, the Near East, Africa, America and North West and Mediterranean Europe. The Barton collection of vernacular ceramics is of particular significance in this context.

We have not reported our ceramics collection in the Balance Sheet, as valuations are not available at a cost commensurate to users of the financial statements.

### Metalwork

The Museums Service holds a collection of 185 bronze skillets, cauldrons, posnets and mortars, of which 179 pieces comprise the Butler Collection which was acquired in 2004. This is the largest collection of English bronze cooking vessels in the public ownership in this country and constitutes the national reference collection. The collection derives from foundries across southern England together with a small number of pieces from Wales. Over 40% of the vessels are Somerset-made, largely from foundries at South Petherton and Montacute which operated in the 17th and early 18th centuries.

Our silver collection is of regional importance with a strong focus upon 17th century Somerset makers, including Thomas Dare senior and junior, Ellen Dare, Robert Wade and Samuel Dell, all of Taunton, the Sweet family of Crewkerne and Chard, Christopher Roberts of Bridgwater and John Elderton of Frome. The 50 pieces are predominantly spoons with a small number of cups and beakers. There are two hoards of spoons, from East Combe and Charlynch.

We have only reported in our Balance Sheet, the metalwork artefacts where cost information (usually purchase price) is known. For the remainder of our metalwork collection, valuations are not available at a cost commensurate to users of the financial statements.

### Fine and decorative arts

The Service's collection contains a relatively small representation of art objects, of which paintings and drawings form the greater part. These mainly comprise illustrations of Somerset scenes and portraits of people associated with Somerset, together with works by artists connected with the County by birth or residence. The collection also includes art objects such as sculpture and art pottery whose connection with Somerset is through previous ownership (for example as part of a country house collection), or which are otherwise linked to the county and are illustrative of its history and creativity. The works by Schwarz and Piper listed in the Balance Sheet relate to this section of the policy.

### Numismatics

The 95,000 coins, medals and banknotes date from ancient Greek to the 20th century and many parts of the world are represented. The collection has developed through donations of single coins and collections (e.g. Norris in 1890, Tite early 20th century and Walter 1901), finds from archaeological excavations and by purchase. The focus has always been upon acquiring specimens made in, or for specific use in, the county and with a Somerset provenance e.g. material from excavations and hoards. Of particular significance are silver pennies from the county's Anglo-Saxon and Norman mints, 17th-19th century trade tokens, trade checks and medallions issued for use in the county and coin hoards, notably the Shapwick hoard which is the largest hoard of Roman silver denarii to have been found in Britain and the Frome hoard, the largest hoard of coins ever found in a single container in Britain.

We have only reported in our Balance Sheet, the numismatic artefacts where cost information (usually purchase price) is known. For the remainder of our numismatic collection, valuations are not available at a cost commensurate to users of the financial statements.

### Archives

Included within our collection of archives, is a collection comprising c.240 boxes of papers relating to the Sanford family of Nynehead near Wellington and their estate. It includes internationally significant papers of the Somerset-born philosopher John Locke; papers concerning important national events including the Monmouth Rebellion; papers concerning British national politics; a detailed first-hand account of the Boer War; extensive and remarkable correspondence of a seventeenth century Somerset country gentlewoman; and a large estate archive important for the understanding of the development of West Somerset.

### Preservation and Management

Details of our preservation and management policy can be found in the Heritage Services' *Museum Acquisition and Disposal Policy 2011 to 2016* which has been produced in accordance with national guidelines and is available on our website.

<http://www.somerset.gov.uk/information-and-statistics/financial-information/budgets-and-accounts/>

## **Note 31: Financial Instruments**

### **Fair Values of Assets and Liabilities**

Financial liabilities, financial assets represented by loans and receivables and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- Prevailing swap rates for Lender Option Borrower Options (LOBOs) and Repayment Rate for Public Work Loans Board (PWLB) at 31 March 2015;
- The fair value of our PFI / lease deferred liability has been calculated using zero coupon rates derived from the Bloomberg composite AA corporate bond yield as indicative interest rates;
- No early repayment or impairment is recognised;
- Where an instrument will mature in the next 12 months, the carrying amount is assumed to approximate to fair value; and
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

Financial Liabilities	31 March 2014		31 March 2015	
	Carrying amount (Restated)	Fair Value (Restated)	Carrying amount	Fair Value
	£millions	£millions	£millions	£millions
Financial liabilities at amortised cost	-669.201	-669.201	-861.360	-861.360
PWLB	-169.601	-203.211	-160.291	-238.382
PFI/Finance Lease deferred liability at discounted rate	-47.298	-77.499	-46.539	-85.550
Other Loans	-173.193	-198.484	-173.198	-267.194
	<b>-1,059.293</b>	<b>-1,148.395</b>	<b>-1,241.388</b>	<b>-1,452.486</b>

NB. The financial liabilities in the table include creditors for Council Tax, NNDR, PAYE/NIC and VAT which are not financial instruments as they do not involve a contract.

The fair value of the liabilities is higher than the carrying amount because the Authority's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2015) arising from a commitment to pay interest to lenders above current market rates.

Financial Assets	31 March 2014		31 March 2015	
	Carrying amount	Fair Value (Restated)	Carrying amount	Fair Value
	£millions	£millions	£millions	£millions
Cash and liquid deposits	134.826	134.826	69.680	69.680
Loans and receivables	193.527	197.716	275.190	283.821
Long-term investments	20.693	20.693	13.001	13.001
	<b>349.046</b>	<b>353.235</b>	<b>357.871</b>	<b>366.502</b>

As our long term investments (Iceland) have been adjusted in our accounts to reflect their discounted value, the fair value of the assets is the same as the carrying value. Had the fair value of the assets been lower than the carrying amount this would have shown a notional future loss (based on economic conditions at 31 March 2015) attributable to the commitment to receive interest below current market rates. However, this is not the case.

We have no financial assets available for sale. Short term debtors and creditors are carried at cost as this is a fair approximation of their value.

### Short-term and long-term investments

These investments include money invested in an account known as the "Comfund", together with money from partner organisations. The aim is to gain the best income from the money jointly invested. We also show the money we receive to invest for other organisations as temporary loans.

The total value of our long-term and short-term investments is shown in the table below:

2012/13 £millions	2013/14 £millions		2014/15 £millions
Investments through the Comfund for:			
3.750	3.500	– South West Councils	3.750
3.500	3.200	– Exmoor National Park	3.300
0.365	0.365	– Police Community Trust	0.365
0.270	0.255	– Society of County Treasurers	0.265
0.325	0.050	– Falcon Housing Trust	0.175
0.300	0.700	– Richard Huish College	1.000
-	-	– South West Regional Improvement and Efficiency Partnership	0.100
0.125	0.125	– Learning South West	0.125
0.040	0.040	– Wyvern Club	0.060
0.375	0.375	– King Alfred School	0.325
9.050	8.610		9.465
185.041	113.653	Our own short-term investment in the Comfund	176.870
194.091	122.263	Total temporary Comfund investment	186.335
1.151	1.191	Other temporary investments	0.083
0.657	0.621	Interest due on temporary investments	0.719
<b>195.899</b>	<b>124.075</b>	<b>Total short-term investments</b>	<b>187.137</b>
4.787	20.692	Our own long-term investment in the Comfund	13.000
0.001	0.001	Investment in South West One	0.001
<b>4.788</b>	<b>20.693</b>	<b>Total long-term investments</b>	<b>13.001</b>

## Long-term debtors

2012/13 £millions	2013/14 £millions		2014/15 £millions
-	0.600	Loans to:	
0.487	0.168	Central Government (Academy loans)	0.520
5.601	5.136	Other authorities (mostly for housing)	0.153
0.037	0.032	Other organisations/individuals	5.505
0.104	0.071	Capital spending for probation to be funded in future years	-
22.050	20.311	Officers' car loans and leases	0.044
		Leasing arrangements with Somerset Care Ltd	18.305
<b>28.279</b>	<b>26.318</b>		<b>24.527</b>

## Short-term borrowing

2012/13 £millions	2013/14 £millions		2014/15 £millions
-9.050	-8.610	Other organisations investing in the Comfund	-9.465
-0.032	-0.032	Interest payable on temporary borrowing	-0.039
<b>-9.082</b>	<b>-8.642</b>		<b>-9.504</b>

## Long-term borrowing

2012/13 £millions	2013/14 £millions		2014/15 £millions
-	-9.200	Loans due to be repaid:	
-9.200	-	within one year	-
-	-	between one and two years	-
-	-	between two and five years	-
-	-5.000	between five and 10 years	-10.000
-329.550	-324.550	after more than 10 years	-319.550
-4.107	-4.044	Interest due on long-term borrowing	-3.939
<b>-342.857</b>	<b>-342.794</b>		<b>-333.489</b>

Long-term borrowing that has become repayable within a year is shown in current liabilities on the Balance Sheet.

## Note 32: Nature and Extent of Risks Arising from Financial Instruments

The Authority's activities expose it to a variety of financial risks. The main risks to the Council's treasury activities are:

- Credit and Counterparty Risk (security of investments);
- Liquidity Risk / Refinancing Risk (inadequate cash resources / impact of debt maturing in future years);
- Market or Interest Rate Risk (fluctuations in interest rate levels);
- Inflation Risk (exposure to inflation);
- Legal and Regulatory Risk.

The Authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by the treasury management team, under policies approved by County Council. The annual Treasury Management Strategy Statement outlines the proposed Treasury Management strategy, policies, and activities for the coming year. It includes an Annual Investment Strategy that is required by the Local Authority Act 2003, as prescribed by guidance from the Department of Communities and Local Government (DCLG). The Treasury Management Practices (TMPs) is a comprehensive document that sets out the nature of risks inherent to treasury management, and schedules provide details of how those risks are actively managed. They form a living document that is subject to ongoing review and updating.

## **Credit and Counterparty Risk**

Credit and counter-party risk is the risk of failure by a third party to meet its contractual obligations under an investment, loan or other commitment, especially one due to deterioration in its creditworthiness, which causes the Council an unexpected burden on its capital or revenue resources.

This risk is minimised through the Annual Investment Strategy, and more specifically by the Somerset County Council Lending Counterparty Criteria, which dictates the criteria with which potential counterparties' creditworthiness will be judged. The criteria requires the Authority to take account of counterparty ratings by the 3 major ratings agency, Fitch, S&P and Moody's, with the lowest rating of the three being used. The criteria also impose limits to be invested with a given financial institution based on ratings, group structure, duration, and country of domicile.

The Somerset County Council Lending Counterparty Criteria is proposed and approved annually to incorporate any changes in financial institutions or developments in the wider political, economic, or legal environment. The criteria in force during 2014/15 can be found under the reports for the County Council meeting 05 February 2014, agenda item 9, Paper E. The Treasury Management Policy Statement is also available. These can be accessed via the hyperlinks below.

<http://www1.somerset.gov.uk/council/board3d/2014%20February%205%20Item%209%20Treasury%20Management%20Strategy%202014-15.pdf>

<http://www1.somerset.gov.uk/council/board3d/2014%20February%205%20Item%209%20Treasury%20Management%20Strategy%202014-15%20Appendices%20A-D.pdf>

As had previously been the case with the Council, and is now a requirement of the revised CLG guidance, the Council uses a range of indicators to assess counterparties' creditworthiness, not just credit ratings. Among other indicators to be taken into account are:

- Credit Default Swaps and Government Bond Spreads;
- GDP, and Net Debt as a percentage of GDP for sovereign countries;
- Likelihood and strength of parental support;
- Government Guarantees and Support, including ability to support;
- Share Price;
- Market information on corporate developments and market sentiment towards the counterparties and sovereigns.

Constant Net Asset Value (CNAV) Money Market Funds (MMFs) are used, and have their own criteria, namely;

- ratings,
- limits of the Council's funds as a nominal or percentage of the overall fund, and
- an overall limit on MMFs.

The Authority's maximum exposure to credit risk in relation to its investments in banks and building societies is assessed generally. The risk of any institution failing to make interest payments or repay the principal sum will obviously be specific to each individual institution, and will be subjectively assessed by various external credit experts. It is therefore deemed appropriate to take the opinion of the same credit rating agencies for likelihood of default, as when making investments.

The following analysis summarises the Authority's potential maximum exposure to credit risk on other financial assets, based on reports of transition and default studies by the three major ratings agencies. In line with guidance on making investments, it is deemed appropriate to take the lowest rating of the three. The values are calculated by multiplying the likelihood of default by the value of deposits at risk. The table below shows the values calculated using each of the ratings agencies reports. The worst case scenario has been used.

<b>Risk rating provider</b>	<b>Risk rating</b>	<b>Amount outstanding £millions</b>	<b>Potential at risk £millions</b>
<b>Fitch</b>	<b>Money-market funds</b>		
	AAA	29.025	0.032
	<b>Local Authorities</b>		
	AA	22.000	0.007
	<b>UK banks</b>		
	AA	55.000	0.016
	A	75.200	0.053
	<b>Overseas Banks</b>		
	AA	57.000	0.017
	<b>UK building societies</b>		
	A	25.000	0.017
		<b>263.225</b>	<b>0.142</b>
<b>S&amp;P</b>	<b>Money-market funds</b>		
	AAA	29.025	-
	<b>Local Authorities</b>		
	AAA	22.000	0.003
	<b>UK banks</b>		
	AA	30.000	0.006
	A	100.200	0.070
	<b>Overseas Banks</b>		
	AA	37.000	0.007
	A	20.000	0.014
	<b>UK building societies</b>		
	A	25.000	0.018
		<b>263.225</b>	<b>0.118</b>
<b>Moody's</b>	<b>Money-market funds</b>		
	AAA	29.025	-
	<b>Local Authorities</b>		
	Aa1	22.000	-
	<b>UK banks</b>		
	Aa3	30.000	0.015
	A1	55.000	0.047
	A2	40.000	0.026
	A3	5.000	0.003
	Baa1	0.200	-
	<b>Overseas Banks</b>		
	Aa1	35.000	-
	Aa2	22.000	-
	<b>UK building societies</b>		
	A2	25.000	0.017
		<b>263.225</b>	<b>0.108</b>
	<b>Investment and highest risk</b>	<b>263.225</b>	<b>0.142</b>

## **Liquidity / Refinancing Risk**

The Authority has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. The Council's cash flow investments are made with reference to the outlook for the UK Bank Rate and Money Market rates. Short-term deposits are made with suitable counterparties, and it has become more frequent under current market conditions that Call Accounts and CNAV MMFs have been used. MMFs offer an alternative high security, high liquidity investment into an extremely diversified portfolio. Many Call and MMF accounts offer more competitive rates than short-term time deposits up to 3-months, as well as instant access.

If unexpected cash movements happen, the Authority has ready access to borrowings from the Money Markets and the Public Works Loans Board. Therefore there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The Authority sets limits on the proportion of its fixed rate borrowing due to mature during specified periods. The strategy is to ensure where possible, that the maturity profile of loans does not mean that the Authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates (Refinancing risk). The Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented. Also ensuring the maturity profile of the monies so raised are managed with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

The Council will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid over reliance on any one source of funding if this might jeopardise achievement of the above. This can be managed through a combination of careful planning of new loans taken out and (where it is economic to do so) restructuring debt or making early repayments. The market loan portfolio can limit the control of early repayments, and a strategy is in place to minimise the impact should counterparties exercise their right to increase the interest rate charged. The maturity analysis of financial liabilities is shown in Note 31.

## **Market Risk**

The Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations. The Council holds no Government or Supranational bonds whose value may be subject to fluctuations in market price. Where it does hold tradable instruments (e.g. Certificates of Deposit), it is the intention to hold to maturity to minimise market risk.

## **Interest Rate Risk**

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

- Borrowings at variable rates – the interest expense charged to the Surplus or Deficit on the Provision of Services will rise;
- Borrowings at fixed rates – the fair value of the liabilities borrowings will fall;
- Investments at variable rates – the interest income credited to the Surplus or Deficit on the Provision of Services will rise; and
- 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 of 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. Any movements in the fair value of fixed rate investments that have a quoted market price would be reflected in Other Comprehensive Income and Expenditure.

The Authority has a number of strategies at its disposal for managing interest rate risk. A proportion of its borrowings could have been taken in variable rate loans during 2014/15, but after amendments to capital financing during the year, no new borrowing was necessary. All borrowing remains at fixed rates. During periods of falling or continued low interest rates, and where economic circumstances make it favourable, fixed rate loans can be repaid early to limit exposure to losses.

As far as investments were concerned, the Council sought to optimise returns commensurate with its objectives of security and liquidity. With UK Bank Rate maintained at 0.5% through the year, short term Money Market rates remained at very low levels, having a significant impact on investment income. To mitigate the effects of this, identified core balances and reserves have been lent for longer periods, where counterparty creditworthiness factors have been deemed appropriate. The aim was to create a portfolio of fixed rate deposits with a rolling maturity providing sufficient liquidity, whilst enabling advantage to be taken of the extra yield offered over longer periods. The rolling nature of maturities meant that if there were a sudden spike in interest rates, a sufficient proportion of the portfolio would be able to be reinvested as higher rates became available.

Some Call Accounts and Money Market Funds offered yields in excess of those on offer for time deposits up to 3 months, which meant that it was beneficial to use these facilities. This was beneficial not just for liquidity and yield, but in mitigating counterparty and interest rate risk.

## **Legal and Regulatory Risk**

The Council ensures that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy, it will ensure that there is evidence of counterparties powers, authority and compliance in respect of the transactions they may effect with the organisation. Particular notice is given with regards to duty of care and fees charged.

The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

## **Foreign Exchange Risk**

The Authority has few financial assets and liabilities denominated in foreign currencies other than a few invoices in major currencies, namely Euros, US Dollars and Australian Dollars. Therefore there is little exposure to loss arising from exchange rates. The council holds £82,729 in Icelandic Krone in escrow accounts in Iceland. Due to exchange controls imposed by the Icelandic Government it is not possible at present to repatriate this in Great British Pounds (GBP). SCC is working with other Local Authorities via the LGA to find a suitable, timely solution to this issue.

To mitigate the minimal risk in movements in the Euro exchange rate, the Council maintains an interest bearing Euro account.

### Note 33: Inventories

	Consumable Stores		Work In Progress		Total	Total
	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15
	£millions	£millions	£millions	£millions	£millions	£millions
Balance outstanding at start of year	0.283	0.408	0.080	0.071	0.363	0.479
Purchases	0.878	2.095	0.070	0.017	0.948	2.112
Recognised as an expense in the year	-0.753	-0.787	-0.079	-0.070	-0.832	-0.857
Balance outstanding at year-end	0.408	1.716	0.071	0.018	0.479	1.734

### Note 34: Short term debtors and payments in advance

2012/13	2013/14		2014/15
£millions	£millions		£millions
		Money owed to us by:	
		Government Departments:	
8.745	10.659	- Central Government	29.248
8.359	9.639	- Local Government	12.817
1.801	4.724	- NHS	2.019
-	0.021	- Public Corporations	0.111
0.086	0.055	Officers (for car loans and leasing arrangements)	0.038
9.407	9.826	Other organisations/individuals	10.538
9.505	8.080	Payments made in advance - Other organisations	6.133
0.012	0.086	Payments in Advance - Central Government	0.012
0.523	0.044	Payments in Advance - Local Government	0.025
<b>38.438</b>	<b>43.134</b>		<b>60.941</b>

### Note 35: Short term creditors

2012/13	2013/14		2014/15
£millions	£millions		£millions
		Money we owe to:	
		Government Departments:	
-5.840	-6.141	- Central Government	-6.517
-8.719	-7.120	- Local Government	-7.275
-0.367	-0.647	- NHS	-1.039
-0.001	-0.165	- Public Corporations	-0.012
-48.436	-51.653	Other organisations	-48.791
-9.817	-7.867	Employees (under IAS19)	-8.998
-5.112	-4.834	Receipts in advance - Other organisations	-1.679
-0.130	-0.259	Receipts in advance - Central Government	-
-0.218	-	Receipts in advance - Local Government	-
<b>-78.640</b>	<b>-78.686</b>		<b>-74.311</b>

## Note 36: Other long term liabilities

2012/13 £millions	2013/14 £millions		2014/15 £millions
-45.555	-46.539	Finance Lease Liability - due in more than 1 year	-45.694
-609.594	-551.884	Pensions liability	-742.572
<b>-655.149</b>	<b>-598.423</b>		<b>-788.266</b>

## Note 37: Provisions

2012/13 £millions	2013/14 £millions		2014/15 £millions
-2.105	-2.769	Total insurance provision (excl. MMI) set aside on 1 April	-6.164
		Add:	
-2.502	-5.388	- premiums received from services	-1.632
-0.042	-0.042	- interest received	-0.048
		Less:	
0.629	0.704	- insurance premiums paid	0.819
0.718	0.797	- net claims paid	0.573
0.491	0.492	- professional and administrative costs	0.527
0.042	0.042	Transfer to reserves set aside for other purposes	0.048
<b>-2.769</b>	<b>-6.164</b>	<b>Total insurance provision set aside on 31 March</b>	<b>-5.877</b>
		<u>Non-Service</u>	
-	-1.075	NDR Collection Fund - Provision for appeals	-2.345
		<u>Environment</u>	
-0.300	-0.291	Carbon Emissions Charge	-
-	-0.062	Waste collection contract indexation	-
-	-	Planning Enquiry	-0.013
-	-	Infrastructure	-1.616
		<u>Children's Services</u>	
-0.253	-0.365	Care Leavers Grant	-0.388
-0.035	-0.035	Maiden Beech Academy Staffing Indemnity	-0.040
		<u>Adult Services</u>	
		LD service user refunds	-0.120
		<u>Other Services</u>	
-	-0.057	Employment tribunal provision	-0.057
-0.020	-	Human resources project	-
-0.030	-	BDOM Project provision	-
<b>-3.407</b>	<b>-8.049</b>	<b>Total Provisions due in less than 1 year</b>	<b>-10.456</b>
		<u>Municipal Mutual Insurance (MMI) Provision</u>	
-0.138	-0.040	Relating to asbestos claims paid by MMI	-0.261
<b>-0.138</b>	<b>-0.040</b>	<b>Total Provisions due in more than 1 year</b>	<b>-0.261</b>

## Insurance provision

The Councils own Insurance Fund directly covers a wide range of our insurance risks. However, there are a very limited range of risks which are not covered by insurance and we charge any loss which arises directly to the service concerned. At the end of the year we have £6.138 million of claims not yet finally agreed (£6.204 million in 2013/14) which we have not yet charged to the fund, but we have set aside this amount as a provision. We also have an earmarked reserve for the Insurance Fund, which currently contains £3.560 million. As we self-insure, we must put aside funds for any future claims as well as the current claims we must still pay.

## Note 38: Grants and Contributions Receipts in Advance

The Authority has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the provider if not met. The balances at the year-end are as follows:

### Capital grants/contributions

2012/13	2013/14		2014/15
£millions	£millions		£millions
<b><u>Capital Grant Receipts in Advance</u></b>			
		Where the conditions are likely to be met within 1 year:	
-14.998	-18.211	- Standards Fund (Schools Department for Education)	-13.700
-1.097	-6.046	- Department for Transport	-11.859
-	-2.203	- Broadband Delivery UK Capital Grant	-
-0.003	-0.554	- Other	-1.401
-0.697	-	- Department for Communities and Local Government	-
<b>-16.795</b>	<b>-27.014</b>		<b>-26.960</b>
		Where the conditions are likely to be met in more than 1 year:	
-8.084	-4.142	- Standards Fund (Schools Department for Education)	-7.687
-	-3.027	- Department for Transport	-2.200
-0.014	-	- Other	-
<b>-8.098</b>	<b>-7.169</b>		<b>-9.887</b>
<b><u>Capital Contribution Receipts in Advance (RIA)</u></b>			
		Where the conditions are likely to be met within 1 year:	
-1.645	-3.607	- Section 106 Contributions	-2.467
-0.618	-0.130	- Other Contributions to our Capital Schemes	-0.427
<b>-2.263</b>	<b>-3.737</b>		<b>-2.894</b>
		Where the conditions are likely to be met in more than 1 year:	
-1.459	-3.624	- Section 106 Contributions	-6.134
-0.146	-	- Section 52 Contributions	-
-2.455	-	- Other Contributions to our Capital Schemes	-0.254
<b>-4.060</b>	<b>-3.624</b>		<b>-6.388</b>
-19.058	-30.751	Total Capital Grant/Contributions RIA's, where conditions are likely to be met within 1 year	-29.854
-12.158	-10.793	Total Capital Grant/Contributions RIA's, where conditions are likely to be met in more than 1 year	-16.275
<b>-31.216</b>	<b>-41.544</b>	<b>Total</b>	<b>-46.129</b>

## Revenue grants

2012/13 £millions	2013/14 £millions		2014/15 £millions
<b><u>Revenue Grant Receipts in Advance</u></b>			
		Where the conditions are likely to be met within 1 year:	
-1.856	-0.555	- Central Government	-0.781
-0.045	-0.289	- NHS	-0.045
-	-0.219	- Other Local Authorities	-0.264
-0.009	-0.007	- Other organisations	-1.579
<b>-1.910</b>	<b>-1.070</b>		<b>-2.669</b>
		Where the conditions are likely to be met in more than 1 year:	
-0.015	-	- NHS	-
-	-	- Other organisations	-4.752
<b>-0.015</b>	<b>-</b>		<b>-4.752</b>
<b>-1.925</b>	<b>-1.070</b>		<b>-7.421</b>

We have included within the 2014/15 revenue grant receipts in advance contributions from developers that were reported within the short-term creditors note in previous years. This has resulted in an increase during 2014/15 when compared to 2013/14.

### Note 39: Usable Reserves

The table below summarises the opening and closing balances for the usable reserves:

2012/13 £millions	2013/14 £millions		2014/15 £millions
20.063	18.090	General Fund - Schools	23.425
24.081	31.903	General Fund - Other	25.672
45.292	57.614	Earmarked Reserves - set aside for revenue purposes	56.951
19.972	22.962	Capital Receipts Reserve	23.787
10.441	9.271	Capital Grants Unapplied Reserve	6.622
7.157	2.194	Capital Contributions Unapplied Reserve	5.613
<b>127.006</b>	<b>142.034</b>	<b>Total Usable Reserves</b>	<b>142.070</b>

These reserves can be used by the Authority to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). A brief description of each of the usable reserves is provided below:

#### General Fund – Schools

This balance represents the cumulative surplus available to Schools to support their revenue and capital spending. Although this reserve is reported within our accounts, the Authority has no control over what the reserve can be spent on.

## General Fund – Other

This balance represents the cumulative surplus available to the Authority to support revenue spending and which has not been earmarked for a specific purpose.

## Earmarked Reserves – set aside for revenue purposes

This balance represents monies available to support revenue spending but which the Authority has earmarked for specific purposes.

## Capital Receipts Reserve

This reserve contains amounts raised through the sale of capital assets such as land and buildings. Capital reserves are not allowed to be used for revenue purposes and in certain cases can only be used for specific statutory purposes. The Usable Capital Receipts Reserve is a reserve established for specific statutory purposes.

## Capital Grants & Contributions Unapplied Reserves

These reserves represents the balance of capital grants and contributions that have been recognised as income but have yet to be used to finance capital expenditure.

The movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement (page 45).

## **Note 40: Unusable Reserves**

The table below summarises the opening and closing balances for the unusable reserves.

2012/13 (Restated) £millions	2013/14 (Restated) £millions		2014/15 £millions
175.476	205.704	Revaluation Reserve	174.071
355.407	319.150	Capital Adjustment Account	338.193
22.907	20.338	Deferred Capital Receipts Reserve	18.333
-609.594	-551.884	Pensions Reserve	-742.572
0.230	3.250	Collection Fund Adjustment Account	3.971
-9.817	-7.867	Accumulated Compensated Absences Adjustment Account	-8.998
<b>-65.391</b>	<b>-11.309</b>	<b>Total Unusable Reserves</b>	<b>-217.002</b>

The following text gives a brief description of each of the unusable reserves and shows the in-year movement of each reserve to support the opening and closing amounts shown in the table above.

## Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment and Intangible Assets. The balance is reduced when assets with accumulated gains are:

- Revalued downwards or impaired and the gains are lost;
- Used in the provision of services and the gains are consumed through depreciation; or
- Disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2013/14 (Restated) £millions	2014/15 2014/15 £millions £millions
<b>175.476</b> Balance at 1 April	<b>205.704</b>
81.538 Upward revaluation of assets	23.178
-18.877 Revaluation/Impairment (losses) not charged to the Surplus/Deficit on the Provision of Services	-41.212
<b>62.661</b> Surplus/Deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services	<b>-18.034</b>
-4.061 Difference between fair value depreciation and historical cost dep'n	-5.622
<b>-28.372</b> Accumulated gains on asset disposals	<b>-7.977</b>
<b>-32.433</b> Amount written off to the Capital Adjustment Account	<b>-13.599</b>
<b>205.704</b> Balance at 31 March	<b>174.071</b>

### Capital Adjustment Account

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

The Account also contains revaluation gains accumulated on property, plant and equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 6 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2013/14 (Restated) £millions		2014/15 £millions
<b>355.407</b>	<b>Balance at 1 April</b>	<b>319.150</b>
	<u>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</u>	
-44.268	- Charges for depreciation and impairment of non current assets/assets held for sale	-41.758
-9.148	- Revaluation losses on Property, Plant and Equipment	-10.640
-0.329	- Amortisation of intangible assets	-0.382
0.175	- Reversal/(Increase) of Icelandic impairment	-0.702
-22.100	- Revenue expenditure funded from capital under statute	-27.878
	- Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	
-74.114		-17.547
-149.784		-98.907
<u>32.430</u>	Adjusting amounts written out of the Revaluation Reserve	<u>13.599</u>
-117.354	Net written out amount of the cost of non current assets consumed in the year	-85.308
	<u>Capital Financing applied in the year:</u>	
5.413	- use of the Capital Receipts Reserve to finance new capital expenditure	6.602
55.888	- Capital grants and contributions that have been applied to capital financing	77.120
19.159	- Statutory provision for the financing of capital investment charged against the General Fund balance	10.040
<u>1.128</u>	- Capital expenditure charged against the General Fund balance	<u>9.888</u>
81.588		103.650
-0.845	Repayment made in year to reduce the capitalised Icelandic investment impairment	0.702
0.354	Repayment made in year to reduce the capitalised redundancy costs	0.000
<u><b>319.150</b></u>	<b>Balance at 31 March</b>	<u><b>338.194</b></u>

### Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Authority does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

2013/14 £millions		2014/15 £millions
<b>22.907</b>	<b>Balance at 1 April</b>	<b>20.338</b>
-0.859	Amounts transferred to the Capital Receipts Reserve during the year	-0.028
	<u>Other movements:</u>	
-1.710	Cancellation of finance leases	-1.977
<u><b>20.338</b></u>	<b>Balance at 31 March</b>	<u><b>18.333</b></u>

The cancellation of finance lease relates to Calway House brought by Somerset Care Ltd and Wessex House which was surplus to their requirements and therefore returned to the Authority.

## Pensions Reserve

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

2013/14		2014/15
£millions		£millions
<b>-609.594</b>	<b>Balance at 1 April</b>	<b>-551.884</b>
84.532	Remeasurement gains / losses (-) on pension assets/liabilities	-157.875
-55.022	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	-62.271
28.200	Employer's pensions contributions and direct payments to pensioners payable in the year	29.458
<b><u>-551.884</u></b>	<b>Balance at 31 March</b>	<b><u>-742.572</u></b>

## Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of Council Tax and Non-Domestic Rates (NDR) income in the Comprehensive Income and Expenditure Statement as it falls due from Council Tax/Business Rate payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

2013/14		2014/15
£millions		£millions
<b>0.230</b>	<b>Balance at 1 April</b>	<b>3.250</b>
3.763	Amount by which Council Tax income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax income calculated for the year in accordance with statutory requirements	1.402
-0.743	Amount by which NDR income credited to the Comprehensive Income and Expenditure Statement is different from NDR income calculated for the year in accordance with statutory requirements	-0.681
<b><u>3.250</u></b>	<b>Balance at 31 March</b>	<b><u>3.971</u></b>

## Accumulated Compensated Absences Adjustment Account

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

2013/14 £millions		2014/15 £millions
<b>-9.817</b>	<b>Balance at 1 April</b>	<b>-7.867</b>
9.817	Settlement or cancellation of accrual made at the end of the preceding year	7.867
-7.867	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	-8.998
<b><u>-7.867</u></b>	<b>Balance at 31 March</b>	<b><u>-8.998</u></b>

## Note 41: Cash and Cash Equivalents

We have several bank accounts for various purposes. Our main banking contract is with National Westminster Bank Plc.

We group together deposits or overdrafts with the same bank. This gives the following balance of cash and cash equivalents along with the bank overdraft.

2012/13 £millions	2013/14 £millions		2014/15 £millions
5.857	4.151	Net Cash in hand	5.455
29.029	130.675	Short term Investment (initial maturity term less than 3 months)	64.225
<b>34.886</b>	<b>134.826</b>	<b>Cash and cash equivalents sub total</b>	<b>69.680</b>
-3.045	-1.950	Bank overdraft	-2.450
<b>31.841</b>	<b>132.876</b>	<b>Cash and cash equivalents at the end of the reporting period</b>	<b>67.230</b>

## Note 42: Cash Flow Statement – Operating Activities

Adjustments to the net surplus or deficit on the provision of services for non cash movements:

2013/14 (Restated) £millions		2014/15 £millions
<b>78.080</b>	Net surplus(-)/deficit on the provision of services	<b>29.748</b>
-44.566	Depreciation and amortisation	-41.825
-9.179	Impairment and downward valuations	-10.956
-26.822	IAS 19 - Pension Liability	-32.814
0.175	Iceland impairment	0.000
-74.114	Carrying amount of non-current assets sold	-19.524
6.753	Movement in working capital	22.831
<b>-147.753</b>		<b>-82.288</b>
55.589	Adjustment for items that are investing or financing activities	85.277
<b>-14.084</b>		<b>32.737</b>

The cash flows for operating activities include the following items:

2013/14 £millions		2014/15 £millions
-4.378	Interest received	-3.777
46.625	Interest paid	43.823

### Note 43: Cash Flow Statement – Investing Activities

2013/14		2014/15
£millions		£millions
37.770	Purchase of property, plant and equipment, investment property and intangible assets	57.364
95.000	Purchase of short term and long term investments	113.000
2.760	Other payments for investing activities	0.382
-8.392	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	-7.415
-151.058	Proceeds from short term and long term investments	-56.910
-64.202	Other receipts from investing activities	-82.616
<b><u>-88.122</u></b>	<b>Net cash flows from investing activities</b>	<b><u>23.805</u></b>

### Note 44: Cash Flow Statement – Financing Activities

2013/14		2014/15
£millions		£millions
-3.250	Cash receipts of short and long term borrowing	-0.855
3.690	Repayments of short term and long term borrowing	9.200
0.731	Other payments for financing activities	0.759
<b><u>1.171</u></b>	<b>Net cash flows from financing activities</b>	<b><u>9.104</u></b>

## Note 45: Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is included in the table below (including the value of assets acquired under finance leases and PFI/PPP contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR is analysed in the second part of this note.

2013/14 (Restated) £millions		2014/15 £millions
376.405	Opening Capital Financing Requirement	357.855
	Capital Investment:	
43.152	- Property, Plant and Equipment	65.957
0.026	- Intangible Assets	0.058
0.012	- Heritage Asset	0.208
-	- Current Assets Held for Sale	0.077
22.101	- Revenue Expenditure Funded from Capital Under Statute	27.878
-2.569	Reduction of long-term capital debtors	-2.006
-0.175	Capitalised Icelandic Investment Impairment/(Reversal)	0.702
-0.354	Capitalised Redundancy Costs	-
	Sources of Finance	
-5.413	- Capital receipts	-6.602
-55.888	- Government grants and contributions	-77.120
	- Sums set aside from revenue:	
-1.128	- Direct revenue contributions	-9.888
-19.159	- MRP/loans fund principal	-10.041
0.845	- Capitalised Icelandic Impairment Repayment	-0.702
<b>357.855</b>	<b>Closing Capital Financing Requirement</b>	<b>346.376</b>

2013/14 £millions		2014/15 £millions
	<u>Explanation of movements in year</u>	
-10.923	Increase/Decrease (-) in underlying need to borrow (supported by government financial assistance)	-9.281
-9.370	Increase/Decrease (-) in underlying need to borrow (unsupported by government financial assistance)	-2.198
-	Assets acquired under finance leases	-
1.743	Assets acquired under PFI/PPP contracts	-
<b>-18.550</b>	<b>Increase/Decrease (-) in Capital Financing Requirement</b>	<b>-11.479</b>

## Note 46: Contingent Liabilities

The Council has a statutory obligation in relation to its closed landfill sites and aftercare of these facilities. There are mitigation actions in place, with regular inspection for minor leachate or gas outbreaks and minor remediation works undertaken as necessary. These make the possibility of a major incident remote, but do not altogether negate the risk. It is not possible to estimate the costs for such an incident with any accuracy, because it would be dependent on a large number of highly variable factors such as the individual site concerned, the exact nature of the incident and the necessary actions to remedy (such as compensation and fines, volume of waste to be transported, nature of the waste involved and degree of reconstruction needed at the site).

## Note 47: Trust Funds

We have not included these funds, which we manage on behalf of trusts, on our consolidated balance sheet because the money does not belong to us. Most of the money can only be used for residential homes and educational purposes. On 31 March 2015 the balances were:

2013/14 £millions		2014/15 £millions
0.926	Field House	0.903
0.039	Other trusts	0.039
<u>0.965</u>		<u>0.942</u>

We are the only trustee of the Field House Trust. We can only use this money for helping the elderly people of Somerset, with preference for the elderly of Shepton Mallet. There is an extract from the Field House Trust accounts below:

2013/14 £millions		2014/15 £millions
-0.054	Total income	-0.054
0.077	Total spending	0.077
<u>0.023</u>	<b>(Surplus)/ Deficit</b>	<u>0.023</u>
0.926	Value of assets	0.903
<u>0.926</u>	<b>Total value of the fund</b>	<u>0.903</u>

## **Note 48: Pension Schemes**

### **Participation in Pension Schemes**

As part of the terms and conditions of employment of its officers, The Authority makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the council has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The Authority participates in four different pension schemes depending on their job:

- The Local Government Pension Scheme (LGPS), administered locally by the Authority, is a defined benefit statutory scheme where benefits accrued up to 31 March 2015 are based on final salary and length of service on retirement. Changes to the LGPS came into effect from 1 April 2014 and any benefits accrued from this date will be based on career average revalued salary.
- The Teachers' Pension Scheme is a notionally-funded, defined-contribution scheme that is managed by the Teachers' Pension Agency. This means the Authority pays contributions as if it was a funded scheme, when, in fact, it is not. Because this scheme is not funded, there is no need for a full actuarial valuation.
- The NHS Pension Scheme is an unfunded multi-employer defined benefit scheme, administered by the NHS Business Service Authority and backed by the Exchequer. Pension benefits are based on final salary (although general and dental practitioners accrue pensions on a 'career average' basis). The Authority pays contributions based on a percentage of pensionable pay, with the contribution rate reviewed every four years by the Government Actuary. We account for this scheme as a defined contribution plan, in-line with the NHS Manual;
- The National Employment Savings Trust (NEST) is a defined contribution scheme, set up as part of the government's workplace pension reforms. As a trust-based plan, run by the NEST Corporation (a non-departmental public body that is accountable to Parliament through the Department for Work and Pensions), the Authority pays contributions based on a percentage of pensionable pay.

## **Defined Contribution Schemes:**

### **Teachers' Pension Scheme**

The table below shows the costs in millions, and as a percentage of total pensionable pay:

<b>2013/14</b>			<b>2014/15</b>	
<b>£millions</b>	<b>%</b>		<b>£millions</b>	<b>%</b>
11.917	14.10	Pension costs charged to the accounts	11.342	14.10
0.037	0.04	Discretionary payments made	0.028	0.03

### **National Employment Savings Trust**

The table below shows the costs in millions, and as a percentage of total pensionable pay:

<b>2013/14</b>			<b>2014/15</b>	
<b>£millions</b>	<b>%</b>		<b>£millions</b>	<b>%</b>
0.017	1.00	Pension costs charged to the accounts	0.014	1.00

## **Defined Benefit Schemes:**

### **Unfunded Teachers Pensions**

The Authority is 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 included within the tables below.

### **Local Government Pension Scheme**

#### **Characteristics and Associated Risks**

The day to day management of the Fund is overseen by the Pension Fund Committee, whilst the day to day Fund administration is undertaken by Peninsula Pensions (a shared service arrangement provided by Devon County Council). Where appropriate some functions are delegated to the Fund's professional advisers.

As Administering Body to the Fund, the Authority, after consultation with the Fund Actuary and other relevant parties, is responsible for the preparation and maintenance of the Funding Strategy Statement and the Statement of Investment Principles. These are amended when appropriate based on the Fund's performance and funding.

Contributions are set every 3 years as a result of the actuarial valuation of the Fund required by the LGPS Regulations 2013.

The next actuarial valuation of the Fund will be carried out as at 31 March 2016 and will set contributions for the period from 1 April 2017 to 31 March 2020. There are no minimum funding

requirements in the LGPS but the contributions are generally set to target a funding level of 100% using the actuarial valuation assumptions.

In general, participating in a defined benefit pension scheme means that the Authority is exposed to a number of risks:

- Investment risk. The Fund holds investment in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term, the short-term volatility can cause additional funding to be required if a deficit emerges.
- Interest rate risk. The Fund's liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the Fund holds assets such as equities the value of the assets and liabilities may not move in the same way.
- Inflation risk. All of the benefits under the Fund are linked to inflation and so deficits may emerge to the extent that the assets are not linked to inflation.
- Longevity risk. In the event that the members live longer than assumed a deficit will emerge in the Fund. There are also other demographic risks.

In addition, as many unrelated employers participate in the Somerset County Council Pension Fund, there is an orphan liability risk where employers leave the Fund but with insufficient assets to cover their pension obligations so that the difference may fall on the remaining employers. All of the risks above may also benefit the Authority e.g. higher than expected investment returns or employers leaving the Fund with excess assets which eventually get inherited by the remaining employers.

The Authority currently participates in the Somerset County Council pool with 1 other Fund employer in order to share experience of risks they are exposed to in the Fund. At the 2013 valuation, the deficit for the whole pool was calculated and allocated to each employer in proportion to their active payroll. The next re-allocation will be carried out at the 2016 valuation, should the employer remain in the pool. Each employer within the pool pays a contribution rate based on the cost of benefits of the combined membership of the pool.

The Authority recognises the cost of retirement benefits in the net cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge required to be made against the council tax is based on the cash payable in the year, so the real cost of retirement benefit is reversed out in the statement of Movement in Reserves.

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:

		<b>Local Government Pension Scheme &amp; Unfunded Benefit Arrangements - Liabilities</b>	
		<b>2013/14 (Restated)</b>	<b>2014/15</b>
		<b>£millions</b>	<b>£millions</b>
<b><u>Comprehensive Income and Expenditure Statement</u></b>			
Net Cost of Services:			
- current service cost		38.300	37.411
- past service cost and gains/losses arising from settlements		-10.107	0.030
Financing and Investment Income and Expenditure:			
- net interest expense		26.829	24.831
<b>Total Post-employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>		<b>55.022</b>	<b>62.272</b>
<b><u>Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement</u></b>			
Remeasurement of the net defined benefit liability comprising:			
- return on plan assets (excluding the amount included in the net interest expense)		-8.174	-46.516
- actuarial (gains) and losses arising on changes in demographic assumptions		31.251	0.000
- actuarial (gains) and losses arising on changes in financial assumptions		23.980	204.645
- other actuarial (gains)/losses on plan assets		14.532	0.000
- experience (gain)/loss on defined benefit obligation		-146.121	-0.255
		<b>-84.532</b>	<b>157.874</b>
<b>Total Post-employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>		<b>-29.510</b>	<b>220.146</b>
<b><u>Movement in Reserves Statement</u></b>			
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits in accordance with the Code			
		<b>-55.022</b>	<b>-62.272</b>
Actual amount charged against the General Fund Balance for pensions in the year:			
- employers' contributions payable to the scheme		<b>28.200</b>	<b>29.458</b>

## Pensions Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the authority's obligation in respect of its defined benefit plans is as follows:

	Local Government Pension Scheme & Unfunded Benefit Arrangements - Liabilities		
	2012/13 £millions	2013/14 £millions	2014/15 £millions
Present value of the defined benefit obligation:			
- Funded obligation	-1,217.419	-1,174.774	-1,428.576
- Unfunded obligation	-41.774	-45.396	-47.744
	-1,259.193	-1,220.170	-1,476.320
Fair value of plan assets	649.599	668.286	733.748
<b>Net liability arising from defined benefit obligation</b>	<b>-609.594</b>	<b>-551.884</b>	<b>-742.572</b>

The net liability shows the underlying commitments that the authority has in the long run to pay retirement benefits. The total liability of £742.572 million has a substantial impact on the net worth of the authority as recorded in the Balance Sheet.

However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy. The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

The pension fund deficit at 31 March 2015 has increased by £190.688 million from 31 March 2014. This is due to changes in the financial assumptions used by the Fund Actuary during the year. For the year ending 31<sup>st</sup> March 2015 the discount rate based on the Merrill Lynch AA rated corporate bond has fallen quite significantly, since the previous accounting period and so this has placed a higher value on the liabilities.

Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets:	2013/14 (Restated) £millions	2014/15 £millions
<b>Opening balance at 1 April</b>	<b>649.599</b>	<b>668.286</b>
Interest income	28.873	29.222
<u>Remeasurement gain/(loss):</u>		
- return on plan assets (excluding the amount included in the net interest expense)	8.174	46.516
Other actuarial gains/(losses)	-14.532	0.000
Employer contributions - funded	25.029	26.480
Employer contributions - unfunded	3.171	2.978
Contributions by scheme participants	8.622	8.696
Benefits paid (including unfunded)	-37.093	-44.684
Other	-3.557	-3.746
<b>Closing balance at 31 March</b>	<b>668.286</b>	<b>733.748</b>

The actual rate of return identified in the table above for 2014/15 represents 6.96% of plan assets (as at 1<sup>st</sup> April 2014).

The fair value of the Local Government Pension Scheme assets comprised:

Fair Value of Scheme Assets	2014/15 £millions
Cash and cash equivalents	6.604
Equities:	
- Quoted	184.905
- Standard Life Smaller Companies Fund	3.669
Private Equity:	
- Neuberger Berman Crossroads 2010 Fund	6.604
- Neuberger Berman Crossroads XX Fund	1.467
- South West Regional Venture Fund	0.734
Overseas Equities:	
- North America	151.887
- Europe	74.842
- Japan	16.876
- Pacific (excluding Japan)	32.285
- Middle East	0.734
- Emerging market	1.467
- Nomura Japan Fund	22.012
- Pioneer Emerging Markets Fund	29.350
	<b>526.832</b>
Derivatives:	
- forward foreign exchange contracts	0.734
Bonds:	
- UK Fixed Interest - Public Sector	57.966
- UK Index Linked - Public Sector	4.402
- Overseas - Corporate Sector Investment Grade	2.935
- Overseas - Corporate Sector High Yield	13.941
	<b>79.244</b>
Property:	
- UK Property Funds	69.706
- Overseas Property Funds	1.467
	<b>71.173</b>
Gilts:	
- UK Fixed Interest - Public Sector	19.077
- UK Index Linked - Public Sector	30.084
	<b>49.161</b>
<b>Total assets</b>	<b>733.748</b>

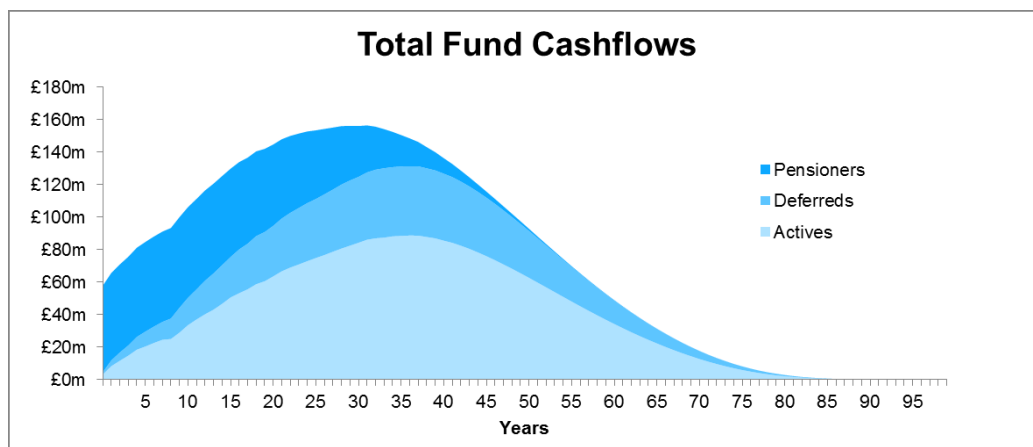
<b>Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation):</b>		
	<b>2013/14 (Restated) £millions</b>	<b>2014/15 £millions</b>
<b>Opening balance at 1 April</b>	<b>-1,259.193</b>	<b>-1,220.170</b>
Current service cost	-38.300	-37.411
Interest cost	-55.702	-54.053
Contributions by scheme participants	-8.622	-8.696
Past service costs, including curtailments	-0.498	-1.862
Settlements	14.162	5.578
Benefits paid (including unfunded)	37.093	44.684
<u>Remeasurement gains and (losses):</u>		
- actuarial gains/(losses) arising from changes in demographic assumptions	-31.251	0.000
- actuarial gains/(losses) arising from changes in financial assumptions	-23.980	-204.645
- experience gain/(loss) on defined benefit obligation	146.121	0.255
<b>Closing balance at 31 March</b>	<b>-1,220.170</b>	<b>-1,476.320</b>

## Impact on the Authority's Cashflows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The County Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 25 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31 March 2016. The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other existing public service schemes may not provide benefits in relation to service after 31 March 2014 (or service after 31 March 2015 for other main existing public service pension schemes in England and Wales). The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants. The authority anticipated to pay £16.587m expected contributions to the scheme in 2015/2016 and an additional £1.567m towards the unfunded teacher's liability. We are also committed to making an additional payment of £8.517m during 2015/16, as a lump sum deficit recovery contribution

The weighted average duration of the defined benefit obligation for scheme members is 20 years for 2014/15 (20 years in 2013/14).

In the most recent valuation exercise (31st March 2013), the actuary projected the expected cashflows in relation to past service cost for the total fund, which were charted as follows:



## Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the 'projected unit method', an estimate of the pensions that will be payable in future years dependant on assumptions about mortality rates, salary levels, etc. With this method, the current service cost of the Local Government Scheme will increase as members of the scheme approach retirement.

Barnett Waddingham (public sector consulting actuaries) assessed the value of the County Council Fund liabilities as at 31 March 2015, by rolling forward the value of the liabilities calculated for the Triennial valuation as at 31 March 2013 allowing for the different financial assumptions required under IAS19. A similar roll-forward approach was taken for the report as at 31 March 2013.

The principal assumptions used by the actuary have been:

2013/14		2014/15
<b>Long-term expected rate of return on assets in the scheme:</b>		
6%	Expected return based on single net interest cost	13%
<b>Mortality Assumptions:</b>		
<i>Longevity (in years) at 65 for current pensioners:</i>		
23.6	- Men	23.7
26.0	- Women	26.1
<i>Longevity (in years) at 65 for future pensioners:</i>		
25.8	- Men	26.0
28.3	- Women	28.4
2.8%	Rate of Inflation (CPI)	2.5%
4.6%	Rate of increase in salaries	4.3%
2.8%	Rate of increase in pensions	2.5%
4.5%	Rate of discounting scheme liabilities	3.4%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analysis below has 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 estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit method.

The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

<b>Sensitivity Analysis</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
<b>Adjustment to discount rate</b>	<b>+0.1%</b>	<b>0.0%</b>	<b>-0.1%</b>
Present value of total obligation	1,448,456	1,476,320	1,504,747
Projected service cost	45,747	46,862	48,006
<b>Adjustment to long term salary increase</b>	<b>+0.1%</b>	<b>0.0%</b>	<b>-0.1%</b>
Present value of total obligation	1,480,176	1,476,320	1,472,489
Projected service cost	46,884	46,862	46,840
<b>Adjustment to pension increases and deferred revaluation</b>	<b>+0.1%</b>	<b>0.0%</b>	<b>-0.1%</b>
Present value of total obligation	1,501,114	1,476,320	1,452,018
Projected service cost	47,992	46,862	45,758
<b>Adjustment to mortality age rating assumption</b>	<b>+1 Year</b>	<b>None</b>	<b>-1 Year</b>
Present value of total obligation	1,426,114	1,476,320	1,526,950
Projected service cost	45,309	46,862	48,428

## NHS Pension Scheme

In line with the NHS Manual, we are required to account for this scheme as a defined contribution plan. Any additional benefits awarded upon early retirement outside of the terms of this scheme are accounted for on a defined benefit basis and included within the tables above

The table below shows the costs in millions, and as a percentage of total pensionable pay:

<b>2013/14</b>			<b>2014/15</b>	
<b>£millions</b>	<b>%</b>		<b>£millions</b>	<b>%</b>
0.170	14.00	Pension costs charged to the accounts	0.179	14.00
0.009	0.75	Discretionary payments made	0.007	0.61

# Group accounts

**Group accounts bring together the accounts of Somerset County Council and other parties in which we have a stakeholding.**

## **PLUSS Ltd**

This year the Authority has remained consistent with the other partners of PLUSS Ltd: Torbay Council; Devon County Council and Plymouth City Council and not produced group accounts. The Authority only has an associate shareholding and our share of the assets and liabilities are not material.

The company's accounts are available from:

The PLUSS Organisation  
22 Marsh Green Road  
Exeter  
Devon  
EX2 8PG

## **Futures for Somerset**

The Authority has an associate interest in Futures for Somerset, a long term strategic partnership established as part of the Building Schools for the Future initiative. Although the Authority is deemed to have significant influence on Futures for Somerset our share of the assets and liabilities are not material and therefore Group Accounts are not produced.

The company's accounts can be obtained from:

Futures for Somerset  
1st Floor Morgan House  
Mount Street  
Bridgwater  
Somerset  
TA6 3ER

## **Maintained Schools**

The Authority's single entity financial statements include all income and expenditure of the authority's maintained schools as if it were the income and expenditure of the authority. Operational Plant and Equipment is also recognised for these schools. For the treatment of Property Non-Current Assets please refer to Accounting Policy 16. The composition of the schools are shown below (where a school converted to Academy in year they are not shown in the number count but are shown within their status prior with regards to income and expenditure which was still the Authorities until the point of conversion):

Type of School	No of Schools	Income £millions	Expenditure £millions
Community Primary	69	-53.080	120.599
Community Secondary	7	-39.395	61.198
Commuity Special (includes PRUs)	10	-27.045	45.318
VC Primary	70	-50.985	94.278
VC Secondary	1	-3.534	5.701
VA Primary	37	-34.202	53.516
Foundation Trust Primary	8	-8.330	8.821
Foundation Trust Secondary	2	-5.696	27.780
Foundation Trust Special Schools	2	-3.910	5.061

# The Pension Fund

## Local Government Pension Scheme (LGP Fund)

By law, Somerset County Council have to run a pension fund for the local government staff in Somerset. A more detailed description of the fund's year is available as a supplementary booklet from the Chief Financial Officer.

### Who the pension fund covers

The Somerset County Council pension fund is a defined benefit pension plan for the employees of the County Council and other employers in Somerset.

The fund receives contributions and investment income to meet pension benefits and other liabilities related to a large number of the County Council's employees. It does not cover teachers (whose pensions are managed through the Government's Department for Education). The fund also extends to cover employees of district councils, civilian employees of the Police and Crime Commissioner for Avon and Somerset (police officers have a separate scheme) and employees of other member bodies. A full list of employers who paid into the fund during the financial year is contained in note 1 of the accounts.

Contributions by employees are based on nine tiered contribution bands dependent on the individual employee's pay, the nine contribution bands range from 5.5% to 12.5%. Nationally the Government estimate the average employee contribution is 6.3%.

All employers' contribution rates are decided by the fund's actuary every three years as part of his valuation of the fund. The rates for the 2014-2015 financial year were the first year covered by the valuation of the fund as at 31 March 2013. For Somerset County Council, for example, the employer's contribution rate for the three years covered by this valuation is 13.5% for each of the years from 2014 to 2017 plus a fixed sum of £7.17m for 2014/2015, £8.52m for 2015/2016 and £9.86m for 2016/2017. This compares with a rate of 13.5% and a lump sum of £5.83m for the 2013/2014 year set under the 2010 valuation. A common contribution rate will, in the long term, be enough to meet the liabilities of the fund assessed on a full-funding basis – this was 20.4% at the 2013 valuation (17.9% at the 2010 valuation). This common contribution rate can be split into amounts that meet new service and an amount needed to make up the deficit in the fund, the common rate of 20.4% is made up of a rate of 13.4% for new service and 7.0% for deficit funding. As part of the 2013 valuation all employers except academy schools have agreed to meet the deficit funding portion by paying a fixed monetary amount rather than a percentage of pensionable pay (as demonstrated by the example of Somerset County Council above). The aim of this is to remove the volatility caused by changing staff levels. At the valuation the actuary estimated that the fund's assets covered 75% of the fund's liabilities.

The pension and lump-sum payments that employees receive when they retire are linked to their final year's salary for pre-2014 service and to career average re-valued earnings (CARE) for 2014 and beyond service, along with how long they have worked for an employer within the fund. Increases in pension payments linked to inflation come out of the fund.

# Fund Account

2013/2014		2014/2015		Notes
£ millions	£ millions	£ millions	£ millions	
Restated				
	<b>Contributions and other income</b>			
20.002	Contributions from employees	20.328		1
53.060	Contributions from employers	59.283		1
1.458	Recoveries from member organisations	1.425		1
4.830	Transfer values received	2.552		2
<b>79.350</b>		<b>83.588</b>		
	<b>Less benefits and other payments</b>			
-59.432	Recurring pensions	-61.789		1
-11.775	Lump sum on retirement	-14.513		1
-1.549	Lump sum on death	-1.383		1
-4.345	Transfer values paid	-69.269		2
-0.008	Refund of contributions to leavers	-0.087		3
<b>-77.109</b>		<b>-147.041</b>		
<b>2.241</b>	<b>Net additions from dealings with members</b>		<b>-63.453</b>	
	<b>Management Expenses</b>			
-1.316	Administrative expenses	-0.993		4
-4.309	Investment management expenses	-5.063		5
-0.550	Oversight and governance expenses	-0.599		6
<b>-6.175</b>		<b>-6.655</b>	<b>-6.655</b>	
	<b>Investment income</b>			
46.759	Investment income received	47.766		7
4.771	Investment income accrued	5.131		7
-0.805	Less irrecoverable tax	-0.679		
0.007	Other income (such as commission)	0.003		
<b>50.732</b>		<b>52.221</b>		
	<b>Change in market value of investments</b>			
55.460	Realised profit or loss	69.068		9
-1.187	Unrealised profit or loss	74.375		9
<b>54.273</b>		<b>143.443</b>		
<b>105.005</b>	<b>Net return on investments</b>		<b>195.664</b>	
<b>101.071</b>	<b>Net increase in the net assets available for benefits during the year</b>		<b>125.556</b>	
	<b>Change in actuarial present value of promised retirement benefits</b>			
-199.996	Vested benefits	-723.812		10
93.658	Non-vested benefits	281.510		10
<b>-106.338</b>	<b>Net change in present value of promised benefits</b>		<b>-442.302</b>	
<b>-5.267</b>	<b>Net increase/(decrease) in the fund during the year</b>		<b>-316.746</b>	
-1,111.972	Add net liabilities at beginning of year		-1,117.239	
<b>-1,117.239</b>	<b>Net liabilities at end of year</b>		<b>-1,433.985</b>	

# Net Asset Statement

On 31 March 2014 £ millions		On 31 March 2015 £ millions		Notes
	<b>Investment assets and liabilities</b>			
1,461.211	Investment assets	1,591.174		8
-0.008	Investment liabilities	-0.324		8
5.543	Other investment balances	0.463		11
	<b>Current assets</b>			
4.746	Contributions due from employers	4.818		
0.000	Cash at bank	0.000		
0.632	Other debtors	0.508		
	<b>Current liabilities</b>			
0.000	Unpaid benefits	0.000		
-0.622	Bank overdraft	-0.004		
-1.846	Other creditors	-1.423		
<b>1,469.656</b>	<b>Net assets of the scheme available to fund benefits at end of year</b>	<b>1,595.212</b>		
	<b>Actuarial present value of promised retirement benefits</b>			
-2,159.986	Vested benefits	-2,883.798		10
-426.909	Non-vested benefits	-145.399		10
<b>-1,117.239</b>	<b>Net liabilities at end of year</b>	<b>-1,433.985</b>		

## Accounting policies

The Pension Fund financial statements have been prepared in line with the conditions of Chapter 2 – Recommended Accounting Practice of the Pension SORP 2007; and

The Pension Fund financial statements have also been prepared in line with the Code of Practice on Local Authority Accounting in the UK 2014/15, which is based upon the International Financial Reporting Standard (IFRS), as amended for the UK public sector.

The Fund account is prepared on a full accruals basis, with the exception of transfer values. As a result the following apply:

- investments are included at market value;
- the majority of listed investments are stated at the bid price or the last traded price, depending on the convention of the stock exchange on which they are quoted, at the date of the net assets statement;

- fixed interest securities are valued excluding accrued income;
- pooled investment vehicles are stated at bid price for funds with bid/offer spreads, or single price (typically net asset value) where there are no bid/offer spreads, as provided by the investment manager;
- forward foreign exchange contracts are valued using the foreign exchange rate at the date of the net asset statement;
- The Neuberger Berman Crossroads 2010 fund and the Neuberger Berman Crossroads XX fund are valued using data supplied by the funds quarterly;
- the South West Regional Venture Fund is valued at cost;
- contributions and benefits are accounted for in the period in which they fall due;
- interest on deposits and fixed interest securities are accrued if they are not received by the end of the financial year;
- interest on investments are accrued if they are not received by the end of the financial year;
- all dividends and interest on investments are accounted for on 'ex-dividend' dates;
- all settlements for buying and selling of investments are accrued on the day of trading;
- transfer values are accounted for when money is received or paid. This treatment is in line with the revised SORP which applied fully from 1 April 1998;
- the fund has significant investments overseas. The value of these investments in the net asset statement is converted into sterling at the exchange rates on 31 March. Income receipts, and purchases and sales of overseas investments, are normally converted into sterling at or about the date of each transaction and are accounted for using the actual exchange rate received. Where the transaction is not linked to a foreign exchange transaction to convert to sterling the exchange rate on the day of transaction is used to convert the transaction into sterling for accounting purposes; and
- Cash and cash equivalents on the Net Asset statement are restricted to 'cash at bank' and 'bank overdraft'. All cash (overdraft) not in the pensions fund's standard bank account with NatWest is treated as an Investment asset and is shown in note 8.

# Notes to the Accounts

## Note 1: Contributions and benefits

	Somerset County Council £ millions	Other scheduled employers £ millions	Admitted employers £ millions	Total £ millions
Employees' contributions				
- Normal	8.526	10.016	1.420	<b>19.962</b>
- Additional	0.178	0.168	0.020	<b>0.366</b>
Total	<u>8.704</u>	<u>10.184</u>	<u>1.440</u>	<b>20.328</b>
Employers' contributions				
- Normal	18.682	19.570	2.982	<b>41.234</b>
- Augmentation	0.675	0.631	0.032	<b>1.338</b>
- Deficit funding	7.173	8.464	1.074	<b>16.711</b>
Total	<u>26.530</u>	<u>28.665</u>	<u>4.088</u>	<b>59.283</b>
Recurring pension and lump sum payments	-37.829	-32.890	-6.966	<b>-77.685</b>
Money recovered from member organisations	0.064	1.332	0.029	<b>1.425</b>
	<u><b>-2.531</b></u>	<u><b>7.291</b></u>	<u><b>-1.409</b></u>	<u><b>3.351</b></u>

## Note 1: Contributions and benefits (continued)

	Employees' contributions	Employers' contributions	Total
<b>County council</b>			
Somerset	8.704	26.530	35.234
<b>Police &amp; Crime Commissioner</b>			
Avon & Somerset	4.280	9.986	14.266
<b>District councils</b>			
Mendip	0.271	0.936	1.207
Sedgemoor	0.536	1.782	2.318
South Somerset	0.698	2.083	2.781
Taunton Deane	0.868	2.731	3.599
West Somerset	0.038	0.450	0.488
<b>Parish and town councils</b>			
Axbridge Town Council	0.001	0.003	0.004
Berrow Parish Council	0.001	0.003	0.004
Burnham & Highbridge Town Council	0.004	0.012	0.016
Burnham & Highbridge Burial Board	0.005	0.017	0.022
Chard Town Council	0.011	0.035	0.046
Cheddar Parish Council	0.004	0.005	0.009
Crewkerne Town Council & Burial Board	0.008	0.024	0.032
Frome Town Council	0.019	0.055	0.074
Glastonbury Town Council	0.007	0.019	0.026
Ilminster Town Council	0.004	0.013	0.017
Langport Town Council	0.001	0.002	0.003
Lower Brue Drainage Board	0.029	0.077	0.106
Minehead Town Council	0.006	0.019	0.025
Nether Stowey Parish Council	0.001	0.003	0.004
Shepton Mallet Town Council	0.001	0.003	0.004
Somerton Town Council	0.001	0.005	0.006
Street Parish Council	0.003	0.008	0.011
Wellington Town Council	0.001	0.002	0.003
Wells Burial Board & Parish Council	0.022	0.032	0.054
Williton Parish Council	0.001	0.002	0.003
Wincanton Town Council	0.003	0.008	0.011
Yeovil Town Council	0.010	0.027	0.037
<b>Other bodies</b>			
Avon and Somerset Probation Trust	0.140	0.317	0.457
Avon and Somerset Magistrates Courts	0.000	1.123	1.123
Exmoor National Park	0.119	0.295	0.414
<b>Further-education colleges</b>			
Bridgwater College	0.571	1.346	1.917
Richard Huish Sixth Form College	0.100	0.235	0.335
Somerset College of Art and Technology	0.257	0.593	0.850
Strode College	0.127	0.331	0.458
Yeovil College	0.217	0.494	0.711

Table continued on next page

## Note 1: Contributions and benefits (continued)

	Employees' contributions	Employers' contributions	Total
<b>Academies</b>			
Ansford Academy	0.027	0.084	0.111
Avishayes Academy	0.017	0.055	0.072
Axbridge Academy	0.010	0.034	0.044
Bath & Wells Academy Trust	0.118	0.360	0.478
Bishop Fox's Academy	0.041	0.125	0.166
Bridgwater College Academy	0.091	0.277	0.368
Brookside Academy	0.062	0.193	0.255
Bruton Sexey's School	0.043	0.116	0.159
Brymore Academy	0.052	0.153	0.205
Buckland St. Mary Church of England School	0.000	0.001	0.001
Buckler's Mead Academy	0.046	0.141	0.187
Buckler's Mead Leisure	0.002	0.008	0.010
Castle Academy	0.062	0.174	0.236
Castle Primary School	0.001	0.002	0.003
Courtfields Academy	0.042	0.129	0.171
Crispin Academy	0.055	0.167	0.222
Danesfield Academy	0.027	0.084	0.111
Enmore Academy	0.005	0.016	0.021
Hambridge Primary School	0.001	0.003	0.004
Hamp Academy	0.019	0.060	0.079
Hayesdown Academy	0.013	0.042	0.055
Haygrove Academy	0.053	0.161	0.214
Holyrood Academy	0.062	0.188	0.250
Horrington Primary School	0.007	0.021	0.028
Huish Academy	0.017	0.052	0.069
Huish Episcopi Academy	0.068	0.208	0.276
Huish Episcopi Primary Academy	0.001	0.002	0.003
King Ina C of E Academy	0.012	0.041	0.053
Kings of Wessex Academy	0.044	0.127	0.171
Kings of Wessex Leisure	0.012	0.028	0.040
Kingsmead Academy	0.043	0.128	0.171
Maiden Beech Academy	0.029	0.086	0.115
Manor Court Primary School	0.022	0.070	0.092

Table continued on next page

## Note 1: Contributions and benefits (continued)

	Employees' contributions	Employers' contributions	Total
<b>Academies (continued)</b>			
Middlezoy Primary School	0.000	0.001	0.001
Minehead Middle School	0.038	0.114	0.152
Monteclefe Academy	0.000	0.000	0.000
North Town Academy	0.018	0.058	0.076
Oakfield Academy	0.029	0.093	0.122
Old Cleeve Academy	0.011	0.033	0.044
Othery Primary School	0.000	0.001	0.001
Pen Mill Academy	0.014	0.044	0.058
Preston Academy	0.049	0.144	0.193
Preston C of E Primary School	0.019	0.064	0.083
Priorswood Academy	0.012	0.038	0.050
Redstart Academy	0.023	0.067	0.090
Selwood Academy	0.036	0.111	0.147
St. Dunstan's Academy	0.025	0.079	0.104
St. Cuthbert's Academy	0.007	0.023	0.030
St. Michael's Academy	0.013	0.041	0.054
St. Peter's Academy	0.008	0.023	0.031
Stanchester Academy	0.029	0.091	0.120
Steiner Academy, Frome	0.011	0.033	0.044
Tatworth Academy	0.007	0.024	0.031
Taunton Academy	0.047	0.148	0.195
The Blue School, Wells	0.084	0.258	0.342
Weare Academy	0.009	0.027	0.036
Wedmore Academy	0.012	0.038	0.050
Wellesley Park Primary School	0.016	0.051	0.067
West Somerset Community College	0.095	0.334	0.429
Westfield Academy	0.053	0.159	0.212
Whitstone Academy	0.030	0.092	0.122
Willowdown Academy	0.008	0.024	0.032
Woolavington Academy	0.012	0.040	0.052
<b>Total other scheduled employers</b>	<u>10.184</u>	<u>28.665</u>	<u>38.849</u>

Table continued on next page

## Note 1: Contributions and benefits (continued)

	Employees' contributions	Employers' contributions	Total
<b>Admitted bodies</b>			
Aster Communities Ltd	0.050	0.199	0.249
BAM FM	0.009	0.025	0.034
Care Focus Somerset Ltd	0.004	0.009	0.013
Churchill Contract Services	0.002	0.008	0.010
Edward and Ward Ltd	0.030	0.095	0.125
Glen Cleaning Company Ltd	0.000	0.001	0.001
Homes in Sedgemoor	0.103	0.236	0.339
ICM	0.013	0.041	0.054
Learning South West	0.014	0.052	0.066
Leisure East Devon	0.013	0.023	0.036
Magna West Somerset Housing Association	0.086	0.225	0.311
Mama Bear's	0.001	0.006	0.007
May Gurney Ltd	0.029	0.078	0.107
MD Building Services	0.032	0.081	0.113
National Autistic Society	0.012	0.044	0.056
NSL Ltd	0.028	0.075	0.103
SHAL Housing Ltd	0.040	0.115	0.155
1610 Ltd	0.055	0.098	0.153
SASP	0.015	0.030	0.045
Society of Local Council Clerks	0.021	0.053	0.074
Somerset Care Ltd	0.064	0.330	0.394
Somerset Rural Youth Project	0.001	0.003	0.004
South West Audit Partnership	0.115	0.322	0.437
South West Heritage	0.033	0.079	0.112
South West Provincial Councils	0.039	0.176	0.215
Taylor Shaw Ltd	0.001	0.004	0.005
Tone Leisure Ltd	0.084	0.173	0.257
Wyvern Nursery Ltd	0.025	0.048	0.073
Yarlington Housing Group	0.521	1.459	1.980
<b>Total admitted employers</b>	<u>1.440</u>	<u>4.088</u>	<u>5.528</u>
<b>Total</b>	<u><b>20.328</b></u>	<u><b>59.283</b></u>	<u><b>79.611</b></u>

## Note 2: Transfer values

2013/2014 £ millions		2014/2015 £ millions
0.000	Group transfer values received	0.000
4.830	Individual transfer values received	2.552
<b>4.830</b>		<b>2.552</b>
0.000	Group transfer values paid	-63.123
-4.345	Individual transfer values paid	-6.146
<b>-4.345</b>		<b>-69.269</b>

## Note 3: Refunds

2013/2014 £ millions		2014/2015 £ millions
-0.006	Contributions refunded to members who leave service	-0.059
-0.003	Interest accumulated on refunds agreed in the past	-0.003
<b>-0.009</b>		<b>-0.062</b>
0.000	Deductions from contributions equivalent premium	-0.035
0.001	Less payments to Department for Work and Pensions contributions equivalent premium	0.010
<b>-0.008</b>		<b>-0.087</b>

#### Note 4: Administrative expenses

2013/2014 £ millions		2014/2015 £ millions
-0.455	Benefits administration costs charged by Somerset CC	-0.216
-0.769	Benefits administration costs charged by Devon CC	-0.749
<b>-1.224</b>		<b>-0.965</b>
-0.003	Legal advice costs charged by Somerset CC	0.000
-0.045	External legal advice	-0.028
<b>-0.048</b>		<b>-0.028</b>
-0.044	Other expenses	0.000
<b>-1.316</b>		<b>-0.993</b>

#### Note 5: Investment management expenses

2013/2014 £ millions		2014/2015 £ millions
	<b>Fund manager fees</b>	
-0.224	Aviva	-0.252
-0.846	Jupiter*	-0.689
0.000	Maple-Brown Abbott*	-0.176
-0.169	Pioneer	-0.191
-0.041	Somerset County Council	-0.042
-1.439	Standard Life*	-1.566
-0.360	Other fund managers	-0.449
<b>-3.079</b>		<b>-3.365</b>
	<b>Other expenses</b>	
-0.800	Transaction costs	-1.246
-0.041	Custody fees	-0.045
-0.389	Property unit trust managers' fees	-0.407
<b>-1.230</b>		<b>-1.698</b>
<b>-4.309</b>		<b>-5.063</b>

The “other fund manager” fees identified above is an estimate of fund management fees that are deducted from within investments held by the pension fund but not invoiced to the fund.

\*The fund manager fees for these managers may include performance related fees. The total performance related fees attributable to the 2014/2015 financial year are £781,000 (£827,000 in 2013/2014).

The transaction costs shown above are broken down as follows:

2013/2014				2014/2015	
£ millions	£ millions			£ millions	£ millions
Broker				Broker	
comm-issions	Taxes and Fees	Manager	Asset Class	comm-issions	Taxes and Fees
<b>Purchase Costs</b>					
0.019	0.019	Somerset County Council	Passive global equity	0.028	0.043
0.113	0.380	Standard Life	UK equity	0.173	0.558
0.011	0.000	Somerset County Council	Passive US equity	0.009	0.000
0.017	0.013	Jupiter	European equity	0.012	0.002
0.000	0.000	Nomura	Japanese equity	0.000	0.000
0.000	0.000	Maple-Brown Abbott	Far East equity	0.067	0.014
0.010	0.010	Somerset County Council	Far East equity	0.000	0.000
0.000	0.000	Pioneer	Emerging market equity	0.000	0.000
0.000	0.000	Standard Life	Bonds	0.000	0.000
0.000	0.000	Aviva	Property	0.000	0.000
0.000	0.000	Neuberger Berman	Global private equity	0.000	0.000
0.000	0.000	Yorkshire Fund Managers	UK venture capital	0.000	0.000
0.000	0.000	Somerset County Council	Cash	0.000	0.000
0.170	0.422			0.289	0.617
<b>Sales Costs</b>					
0.019	0.020	Somerset County Council	Passive global equity	0.031	0.018
0.101	0.000	Standard Life	UK equity	0.171	0.000
0.012	0.001	Somerset County Council	Passive US equity	0.010	0.001
0.017	0.000	Jupiter	European equity	0.027	0.000
0.000	0.000	Nomura	Japanese equity	0.000	0.000
0.000	0.000	Maple-Brown Abbott	Far East equity	0.045	0.037
0.010	0.028	Somerset County Council	Far East equity	0.000	0.000
0.000	0.000	Pioneer	Emerging market equity	0.000	0.000
0.000	0.000	Standard Life	Bonds	0.000	0.000
0.000	0.000	Aviva	Property	0.000	0.000
0.000	0.000	Neuberger Berman	Global private equity	0.000	0.000
0.000	0.000	Yorkshire Fund Managers	UK venture capital	0.000	0.000
0.000	0.000	Somerset County Council	Cash	0.000	0.000
0.159	0.049			0.284	0.056
<b>0.329</b>	<b>0.471</b>			<b>0.573</b>	<b>0.673</b>
	<b>0.800</b>				<b>1.246</b>

In addition to these costs, indirect costs are incurred through bid/offer spread on investment purchases. No attempt has been made to quantify these amounts.

## Note 6: Oversight and governance expenses

2013/2014 £ millions		2014/2015 £ millions
0.000	Committee services costs charged by Somerset CC	0.000
-0.183	Investments administration costs charged by Somerset CC	-0.271
<b>-0.183</b>		<b>-0.271</b>
-0.128	Actuary's fees	-0.112
0.038	Recharge of Actuary's fees to employers	0.048
<b>-0.090</b>		<b>-0.064</b>
-0.024	External audit fees	-0.024
0.000	Fee rebate	0.003
<b>-0.024</b>		<b>-0.021</b>
0.000	Internal audit costs charged by South West Audit Partnership	0.000
-0.054	Professional services and subscriptions	-0.057
-0.121	IT systems	-0.125
-0.021	Performance measurement fees	-0.022
-0.002	External legal advice	-0.006
-0.022	Voting advice fees	-0.023
-0.033	Other expenses	-0.010
<b>-0.550</b>		<b>-0.599</b>

## Note 7: Investment income

2013/2014 £ millions		2014/2015 £ millions
10.259	Fixed interest	10.293
0.590	Index linked	0.672
17.711	UK equities	14.347
12.479	Foreign equities	13.344
10.192	Property unit trusts	13.764
0.148	Cash invested internally	0.192
0.000	Venture capital	0.000
0.000	Commission recapture	0.000
0.151	Stock lending	0.285
<b>51.530</b>		<b>52.897</b>

## Note 8: Investment Assets & Liabilities

31 March 2014				31 March 2015			
£ millions	£ millions	%	%	£ millions	£ millions	%	%
<b>UK equities</b>							
396.744		27.2		403.005		25.3	
9.375		0.6		8.604		0.5	
<b>406.119</b>		<b>27.8</b>		<b>411.609</b>		<b>25.8</b>	
<b>Overseas equities</b>							
279.408		19.1		329.413		20.7	
157.235		10.8		161.615		10.2	
30.740		2.1		37.042		2.3	
63.304		4.3		69.320		4.4	
0.955		0.1		0.936		0.1	
0.000		0.0		3.556		0.2	
38.027		2.6		47.940		3.0	
60.901		4.2		63.497		4.0	
<b>630.570</b>		<b>43.2</b>		<b>713.319</b>		<b>44.9</b>	
<b>Bonds</b>							
36.583		2.5		41.535		2.6	
105.719		7.2		126.265		7.9	
11.918		0.8		8.915		0.6	
0.000		0.0		0.000		0.0	
4.768		0.3		5.608		0.4	
33.241		2.3		30.611		1.9	
56.613		3.9		64.468		4.0	
0.000		0.0		0.246		0.0	
<b>248.842</b>		<b>17.0</b>		<b>277.648</b>		<b>17.4</b>	
<b>Property</b>							
134.862		9.2		151.175		9.5	
5.753		0.4		3.451		0.2	
<b>140.615</b>		<b>9.6</b>		<b>154.626</b>		<b>9.7</b>	
<b>Private equity</b>							
9.823		0.7		14.031		0.9	
1.932		0.1		3.004		0.2	
1.920		0.1		1.920		0.1	
<b>13.675</b>		<b>0.9</b>		<b>18.955</b>		<b>1.2</b>	
<b>Derivatives</b>							
0.150		0.0		1.276		0.1	
0.000		0.0		0.000		0.0	
<b>0.150</b>		<b>0.0</b>		<b>1.276</b>		<b>0.1</b>	
<b>Cash and others</b>							
21.240		1.5		13.741		0.9	
<b>21.240</b>		<b>1.5</b>		<b>13.741</b>		<b>0.9</b>	
<b>1,461.211</b>		<b>100.0</b>	<b>Investment assets</b>	<b>1,591.174</b>		<b>100.0</b>	

Table continued on next page

## Note 8: Investment Assets & Liabilities (continued)

31 March 2014				31 March 2015			
£ millions	£ millions	%	%	£ millions	£ millions	%	%
<b>Derivatives</b>							
-0.008		0.0		-0.324		0.0	
0.000		0.0		0.000		0.0	
<b>-0.008</b>		<b>0.0</b>		<b>-0.324</b>		<b>0.0</b>	
<u>-0.008</u>		<u>0.0</u>	<b>Investment liabilities</b>	<u>-0.324</u>		<u>0.0</u>	
<u><b>1,461.203</b></u>		<u><b>100.0</b></u>	<b>Net investment assets</b>	<u><b>1,590.850</b></u>		<u><b>100.0</b></u>	
<b>Made up of</b>							
1,177.409			Historical cost	1,232.681			
283.794			Unrealised profit or loss	358.169			
<u><b>1,461.203</b></u>				<u><b>1,590.850</b></u>			

## Note 9: Movement in investment assets

Manager	Asset class	Investment assets as at 1 April £ millions	Change in cash invested internally £ millions	Purchases £ millions	Sales proceeds £ millions	Realised profit or loss £ millions	Unrealised profit or loss £ millions	Investment assets as at 31 March £ millions
2013/2014	Total	1,361.639	-39.363	1,043.327	-958.673	55.460	-1.187	1,461.203
Somerset County Council	Global equity	356.910	0.000	111.682	-118.047	25.019	28.901	404.465
Standard Life	UK equity	376.771	0.000	148.039	-136.289	14.254	-21.498	381.277
Somerset County Council	US equity	75.935	0.000	44.904	-47.472	6.406	9.356	89.129
Jupiter	European equity	90.015	0.000	15.685	-22.002	3.096	5.564	92.358
Nomura	Japanese equity	38.027	0.000	0.000	0.000	0.000	9.913	47.940
SCC / M-BA	Far East equity	38.130	0.000	34.926	-27.334	-0.580	1.120	46.262
Pioneer	Emerging Market equity	60.901	0.000	0.000	0.000	0.000	2.596	63.497
Standard Life	Bonds	248.842	0.000	117.524	-109.856	-2.133	23.271	277.648
Standard Life	Derivatives	0.084	0.000	711.888	-712.038	0.149	0.622	0.705
Aviva	Property	140.615	0.000	10.374	-4.622	-2.761	11.020	154.626
Aviva	Currency	0.058	0.000	32.877	-32.877	0.000	0.189	0.247
Neuberger Berman	Global private equity	11.755	0.000	3.402	-1.220	-0.050	3.148	17.035
TVP	UK venture capital	1.920	0.000	0.000	0.000	0.000	0.000	1.920
Somerset County Council	Cash	21.240	-33.340	0.000	0.000	25.668	0.173	13.741
<b>2014/2015</b>	<b>Total</b>	<b><u>1,461.203</u></b>	<b><u>-33.340</u></b>	<b><u>1,231.301</u></b>	<b><u>-1,211.757</u></b>	<b><u>69.068</u></b>	<b><u>74.375</u></b>	<b><u>1,590.850</u></b>

## Note 10: Actuarial present value of promised retirement benefits

The present value of promised retirement benefits is an estimate of the value of the lump sums and pensions that the fund will pay in the future. The estimate has been calculated by the fund's actuary and has been prepared in accordance with International Accounting Standard (IAS) 26. In calculating the disclosed numbers the actuary has adopted methods and assumptions that are consistent with IAS19.

To assess the value of the Fund's liabilities at 31 March 2015, the actuary has rolled forward the value of the Fund's liabilities calculated for the funding valuation as at 31 March 2013

In accordance with IAS 19 the assumptions used to make the calculations are set with reference to market conditions at the net asset statement date. The assumptions used are as follows:

31 March 2014		31 March 2015
<b>Financial assumptions</b>		
3.6%	RPI increases	3.3%
2.8%	CPI increases	2.5%
5.0%	Salary increases	4.3%
2.8%	Pension increases	2.5%
4.5%	Discount Rate	3.4%
<b>Life expectancy (from age 65)</b>		
23.6	Retiring today - Males	23.7
26.0	- Females	26.1
25.8	Retiring in 20 years - Males	26.0
28.3	- Females	28.4

The RPI increase assumption is set based on the difference between conventional gilt yields and index-linked gilt yields at the accounting date using data published by the Bank of England, specifically the 20 year point on the BoE spot inflation curve. This is consistent with the approach used at the last accounting date.

CPI is assumed to be 0.8% below RPI. This is a reasonable estimate for the future differences in the indices, based on the different calculation methods.

Salary increases are assumed to increase at 1.8% per annum above CPI in addition to a promotional scale.

The discount rate is the annualised yield at the 20 year point on the Merrill Lynch AA rated corporate bond curve which has been chosen to meet the requirements of IAS19 and with consideration of the duration of the Fund's liabilities. This is consistent with the approach used at the last accounting date.

The table below shows a breakdown of the change in the present value of promised retirement benefits that occurred during the year.

2013/2014 £ millions	2014/2015 £ millions
77.329	79.362
112.872	111.526
126.633	407.323
59.559	0.000
-215.807	0.000
0.000	-95.516
-73.826	-84.602
1.111	3.901
18.467	20.308
<b>106.338</b>	<b>442.302</b>

## Note 11: Other investment balances

31 March 2014 £ millions		31 March 2015 £ millions	
<b>Assets</b>			
3.820	- Accrued income		4.214
0.951	- Accrued Recoverable tax		0.917
2.452	- Payments due on investments sold		0.372
<hr/> 7.223			<hr/> 5.503
<b>Liabilities</b>			
-1.680	- Payments not made on purchases and losses due on sales		-5.040
<hr/> 5.543			<hr/> 0.463

## Note 12: Management structure

31 March 2014 £ millions		%	Manager	Asset class	31 March 2015 £ millions	%
356.910	24		Somerset County Council	Passive global equity	404.465	25
376.771	26		Standard Life	UK equity	381.277	24
75.935	5		Somerset County Council	Passive US equity	89.129	6
90.015	6		Jupiter	European equity	92.358	6
38.027	3		Nomura	Japanese equity	47.940	3
0.000	0		Maple-Brown Abbott	Far East equity	46.262	3
38.130	3		Somerset County Council	Far East equity	0.000	0
60.901	4		Pioneer	Emerging market equity	63.497	4
248.926	17		Standard Life	Bonds	278.353	17
140.673	10		Aviva	Property	154.873	10
11.755	1		Neuberger Berman	Global private equity	17.035	1
1.920	0		Technology Venture Partners	UK venture capital	1.920	0
21.240	1		Somerset County Council	Cash	13.741	1
<b>1,461.203</b>	<b>100</b>		<b>Net investment assets</b>		<b>1,590.850</b>	<b>100</b>

## Note 13: Major holdings

31 March 2014				31 March 2015	
Rank	£ millions	Stock	Description	Rank	£ millions
1	60.901	Pioneer Emerging Market Equity Fund	Pooled fund of emerging market equities	1	63.497
2	38.027	Nomura Japan Fund	Pooled fund of Japanese equities	2	47.940
3	25.465	HSBC	UK bank	3	24.904
9	11.812	Aviva Pooled Pension PUT	UK property unit trust	4	15.699
5	16.493	BP	UK oil company	5	15.291
10	11.801	Schroders UK PUT	UK property unit trust	6	15.281
4	22.862	Royal Dutch Shell	UK oil company	7	15.267
21	8.839	Barclays	UK bank	8	15.232
7	13.491	Vodafone	UK mobile phone company	9	14.136
14	9.823	Neuberger Berman Crossroads 2010 fund	Private equity fund	10	14.031
39	6.251	Lloyds Bank	UK bank	11	13.619
15	9.507	Prudential	UK life insurance company	12	12.950
29	7.319	Glencore	UK mining company	13	12.490
6	14.120	Glaxosmithkline	UK pharmaceutical company	14	12.470
11	10.755	Blackrock property fund	UK property unit trust	15	12.216
27	7.404	Apple	US consumer electronics company	16	12.054
8	12.162	Rio Tinto	UK mining company	17	12.041
12	10.459	BT	UK fixed line phone company	18	11.305
19	9.007	IPIF	UK property unit trust	19	11.281
16	9.460	Lendlease	UK property unit trust	20	10.594

None of the holdings of the fund makes up more than 5% of the net investment assets. The largest holding (Pioneer Emerging Market Equity Fund) makes up 4.0% of the net investment assets.

## Note 14: Derivatives

Investment in derivative instruments may only be made if they contribute to a reduction of risk or they facilitate more efficient portfolio management.

During the year the fund used forward foreign exchange contracts and bond futures.

The year end value of derivatives is as follows:

31 March 2014				31 March 2015		
£ millions				£ millions		
Asset	Liability	Net value		Asset	Liability	Net value
<b>Forward foreign-exchange contracts</b>						
0.092	-0.008	0.084	Standard Life fixed Interest	1.029	-0.324	0.705
0.058	0.000	0.058	Aviva	0.247	0.000	0.247
<b>0.150</b>	<b>-0.008</b>	<b>0.142</b>		<b>1.276</b>	<b>-0.324</b>	<b>0.952</b>
<b>Government bond futures</b>						
0.000	0.000	0.000	UK gilt future	0.000	0.000	0.000
0.000	0.000	0.000	European bond future	0.000	0.000	0.000
0.000	0.000	0.000	Austrian bond future	0.000	0.000	0.000
0.000	0.000	0.000	Canadian bond future	0.000	0.000	0.000
0.000	0.000	0.000	US treasury future	0.000	0.000	0.000
<b>0.000</b>	<b>0.000</b>	<b>0.000</b>		<b>0.000</b>	<b>0.000</b>	<b>0.000</b>
<b>0.150</b>	<b>-0.008</b>	<b>0.142</b>		<b>1.276</b>	<b>-0.324</b>	<b>0.952</b>

Standard Life hold forward foreign exchange contracts to hedge the foreign exchange risk of holding investments that are not valued in sterling in their fixed income portfolio. The non-sterling bonds are either government bonds or corporate bonds. Typically Standard Life chose to hedge 100% of their currency risk.

Aviva also hold forward foreign exchange contracts to hedge the foreign exchange risk of holding investments that are not valued in sterling in their property portfolio. The non-sterling investments are 4 funds that invest in European property and are priced in euros. Typically Aviva chose to hedge 100% of their currency risk.

The fair value of these contracts at year end is based on market foreign exchange rates at the year end date. All forward foreign exchange contracts are over the counter trades.

The bond futures are used by Standard Life to gain exposure to overseas government bonds with lower trading costs and better liquidity than trading the underlying bonds themselves. There are significant restrictions in how Standard Life may use bond futures to ensure they do not increase the overall risk of the portfolio they are managing. The bond futures are exchange traded contracts.

The gross exposure values (the value of the assets bought and sold within the derivatives contracts) are shown in the following table.

31 March 2014 £ millions				31 March 2015 £ millions		
Asset exposure value	Liability exposure value	Net value		Asset exposure value	Liability exposure value	Net value
<b>Forward foreign-exchange contracts</b>						
44.610	-44.526	0.084	Standard Life fixed Interest	53.041	-52.336	0.705
7.184	-7.126	0.058	Aviva	4.304	-4.057	0.247
<b>51.794</b>	<b>-51.652</b>	<b>0.142</b>		<b>57.345</b>	<b>-56.393</b>	<b>0.952</b>
<b>Government bond futures</b>						
3.395	-3.395	0.000	UK gilt future	4.095	-4.095	0.000
1.969	-1.969	0.000	European bond future	0.000	0.000	0.000
0.000	0.000	0.000	Australian bond future	3.999	-3.999	0.000
0.000	0.000	0.000	Canadian bond future	0.000	0.000	0.000
2.138	-2.138	0.000	US treasury future	11.084	-11.084	0.000
<b>7.502</b>	<b>-7.502</b>	<b>0.000</b>		<b>19.178</b>	<b>-19.178</b>	<b>0.000</b>
<b>59.296</b>	<b>-59.154</b>	<b>0.142</b>		<b>76.523</b>	<b>-75.571</b>	<b>0.952</b>

## Note 15: Stock Lending

31 March 2014 £ millions		31 March 2015 £ millions
52.232	Value of stock on loan	117.118
55.536	Value of collateral held against loaned stock	128.515

31 March 2014 %		31 March 2015 %
<b>Form of collateral provided</b>		
34.0	UK Government debt	14.2
6.7	US Government debt	5.6
47.9	Euro area Governments debt	25.2
0.0	US\$ denominated corporate debt	0.0
0.0	€ denominated corporate debt	0.0
2.7	UK equities	1.9
8.7	Overseas equities	53.1
<b>100.0</b>		<b>100.0</b>

## Note 16: Membership Statistics

As at 31 March	2009	2010	2011	2012	2013	2014	2015
<b>Active scheme members</b>	<b>20,022</b>	<b>20,450</b>	<b>20,492</b>	<b>19,505</b>	<b>19,446</b>	<b>21,057</b>	<b>22,020</b>
<b>Pensioners</b>							
Current (in payment)	10,126	10,821	11,664	12,301	12,636	12,460	13,871
Deferred (future liability)	12,787	13,817	14,923	14,509	15,823	17,006	17,280
Undecided leavers *				2,307	3,135	3,147	3,754
<b>Total (active plus pensioners)</b>	<b>42,935</b>	<b>45,088</b>	<b>47,079</b>	<b>48,622</b>	<b>51,040</b>	<b>53,670</b>	<b>56,925</b>
Active members for each current pensioner	1.98	1.89	1.76	1.59	1.54	1.69	1.59

\* For 2009 to 2011 undecided leavers are included in deferred pensioners.

## Note 17: Additional voluntary contributions

During the year some members of the fund paid additional voluntary contributions (AVCs) to Equitable Life and Prudential to buy extra pension benefits when they retire. The pension fund accounts, in accordance with regulation 5 (2)(C) of the Pension Scheme (Management and Investment of Funds) Regulations 1998 do not include AVC transactions. The contributions for the year and the outstanding value of assets invested via AVCs at 31 March are shown in the following table.

<b>31 March 2014</b> <b>£ millions</b>	<b>31 March 2015</b> <b>£ millions</b>
<b>Value of additional voluntary contributions</b>	
3.813 Prudential	4.499
0.408 Equitable Life	0.393
<b><u>4.221</u></b>	<b><u>4.892</u></b>

<b>2013/2014</b> <b>£ millions</b>	<b>2014/2015</b> <b>£ millions</b>
<b>Additional voluntary contributions paid during the year</b>	
0.437 Prudential	0.493
0.000 Equitable Life	0.000
<b><u>0.437</u></b>	<b><u>0.493</u></b>

## **Note 18: Related Parties**

Pensions Committee members, James Hunt, Tim Carroll and Sam Crabb were active members of the councillors' scheme, which is a part of the Somerset County Council Pension Scheme, during the year. Committee members Caroline Moore and Mark Simmonds were active members of the standard scheme during the year and Committee member Sarah Payne was a deferred member of the standard scheme during the year.

Pensions Committee member Sarah Payne has personal investments that are managed by Jupiter Asset Management.

The fund holds shares in a number of companies that Somerset County Council and the other member bodies have commercial dealings with. Decisions about the suitability of companies for the fund to invest in are taken by Standard Life, Jupiter Asset Management, Nomura Asset Management, Pioneer Investments and Aviva Investors for their parts of the fund, without referring to the county council, its officers or other member bodies. Decisions about suitable investments for the in-house funds are made based only on the recommendations of a quantitative analysis system, so officers do not have the power to include or exclude specific companies.

Payments made to Somerset County Council by the fund for administration and related services are disclosed in notes 4, 5 and 6.

No other related party transactions other than normal contributions, benefits and transfers occurred during the year. In note 1 we analyse the total contributions we were due to receive and benefits the fund paid for scheduled and admitted bodies.

## Note 19: Remuneration

No staff are directly employed by Somerset County Council Pension Fund. All officers who undertake work on behalf of the fund are employed by Somerset County Council and then costs, including pay where appropriate, are charged to the fund. The total cost of these charges is shown in notes 4, 5 and 6 of these accounts.

The total actual salary and benefits paid for the financial year ended 31 March 2015 of 2 officers who undertake work for the fund is greater than £50,000. The pay of these 2 officers is shown in the table below. This represents their full salary and benefits from Somerset County Council and does not represent the costs of the work these 2 officers undertake for the pension fund.

Year to 31 March 2015				Total wages and benefits but not including pensions contributions 2013/14	Employer's pension contributions	Total wages and benefits including pensions contributions 2013/14
Post title	Salary (including fees and allowances) £	Compensation for loss of office £	Benefits in kind £	£	£	£
Director of Finance and Performance	102,800.00	-	-	102,800.00	13,900.00	116,700.00
Strategic Manager - Finance Technical	63,500.00	-	-	63,500.00	8,600.00	72,100.00

For comparison purposes the equivalent disclosure for the financial year ended 31 March 2014 is shown in the table below.

Year to 31 March 2014				Total wages and benefits but not including pensions contributions 2013/14	Employer's pension contributions	Total wages and benefits including pensions contributions 2013/14
Post title	Salary (including fees and allowances) £	Compensation for loss of office £	Benefits in kind £	£	£	£
Director of Finance and Performance	100,000.00	-	-	100,000.00	13,500.00	113,500.00
Strategic Manager - Finance Technical	56,100.00	-	-	56,100.00	7,600.00	63,700.00

## **Note 20: Statement of Investment Principles**

We have prepared a Statement of Investment Principles, which explains the strategies and policies that we use in the administration of the pension fund's investments. The full statement is published in the Pension Fund Annual Report and Financial Statement and is also available on the County Council website.

## **Note 21: Contingent liabilities**

There were no contingent liabilities as at 31 March 2015.

## **Note 22: Post balance sheet events**

There were no post balance sheet events as at 24th September 2015.

## **Note 23: Nature and Extent of Risks Arising from Financial Instruments**

As a result of the adoption of IFRS the fund is required to make disclosures of the risks arising from holding Financial Instruments. For the purpose of this disclosure, financial instruments means all of the fund's investment assets and investment liabilities as shown in note 8 of these accounts, the approximation of the fair value of the net of these assets and liabilities at 31 March 2015 being £1,591m.

The main risks from the fund's holding of financial instruments are market risk, credit risk and liquidity risk. Market risk includes price risk, interest rate risk and currency risk.

The fund's assets are managed by a mixture of officers and external fund managers as described in note 12 of these accounts. A management agreement is put in place with each external fund manager which clearly states the type of investments they are allowed to make for the fund, asset allocation ranges and any further restrictions we believe are necessary.

To make investments as secure as they can be, where possible, external investments are maintained under the control of a safe custodian. Only cash holdings and a small number of unit trusts stay under the control of officers.

Because the fund adopts a long term investment strategy, the high level risks described below will not alter significantly during the year unless there are significant strategic or tactical changes in the portfolio.

## Market Risk

Market risk represents the risk that the fair value of a financial instrument will fluctuate because of changes in the market prices of assets or currencies where the assets are priced in currencies other than British pounds.

The fund is exposed to market risk on all of its investment assets with the exception of the cash holdings in Sterling. The aim of the investment strategy is to manage and control market risk within acceptable parameters, while optimising the return from the investment portfolio.

The fund holds a diversified portfolio of different assets, which are managed by a variety of fund managers which have a variety of investment styles. This diversification is the most effective way of managing market risk.

The fund particularly manages the effect of market movements on exchange rates by hedging a portion of its foreign currency exposure using currency forwards. Details of this are given in note 14 of these accounts.

The sensitivity of the fund's investments to changes in market prices have been analysed using the volatility of returns experienced by asset classes. The volatility data has been provided by the WM Company, the fund's performance measurement advisor, and is broadly consistent with a one-standard deviation movement. The volatility is measured by the (annualised) estimated standard deviation of the returns of the assets relative to the liability returns. Such a measure is appropriate for measuring "typical" variations in the relative values of the assets and liabilities over short time periods. It is not appropriate for assessing longer term strategic issues.

Movements in market prices would have increased or decreased the investment assets valued at 31 March 2015 by the amounts shown below.

Asset class	Value of Assets £ millions	Volatility	Increase in Assets £ millions	Decrease in Assets £ millions
UK equities	411.609	17.90%	73.678	-73.678
Foreign equities	713.319	15.30%	109.138	-109.138
UK bonds	176.715	7.70%	13.607	-13.607
Overseas bonds	36.465	13.20%	4.813	-4.813
UK index-linked bonds	64.468	7.20%	4.642	-4.642
Property	154.626	6.20%	9.587	-9.587
Cash	13.741	0.00%	0.000	0.000
Others	19.907	7.50%	1.493	-1.493
<b>Net investment assets</b>	<b><u>1,590.850</u></b>		<b><u>216.958</u></b>	<b><u>-216.958</u></b>

## Credit Risk

Credit risk represents the risk that the counterparty to a financial instrument will fail to meet an obligation and cause the fund to incur a financial loss. This is often referred to as counterparty risk.

The fund is subject to credit risk within its general debtors although none of these would represent a material risk to the fund.

The fund has credit risk to each of its employer bodies in that they could become insolvent and default on a pension deficit owed to the fund. The majority of the employers in the fund are statutory bodies backed to a greater or lesser extent by the UK government. For the admitted bodies the credit risk is mitigated and managed by the holding of guarantee bonds or having their deficit guaranteed by one of the statutory bodies within the fund.

Bankruptcy or insolvency of the custodian may affect the fund's access to its assets. However, all assets held by the custodian are ring-fenced as "client assets" and therefore cannot be claimed by creditors of the custodian. The fund manages its risk by monitoring the credit quality and financial position of the custodian.

A source of credit risk is the cash balances held to meet operational requirements or by the managers at their discretion and cash deposits with various institutions. Internally held cash is managed on the fund's behalf by the Council's Treasury Management Team in line with the fund's Counterparty Policy which sets out the permitted counterparties and limits. The exposure within the cash management part of the portfolio to a single entity is limited to £8m and all counterparties must be rated at least "BBB+" or higher by the three major rating agencies. In this context the fund's cash balances (including the cash held at bank or net of bank overdraft) of £13.8m is subject to credit risk.

Through its securities lending activities, the fund is exposed to the counterparty risk of the collateral provided by borrowers against the securities lent. This risk is managed by restricting the collateral permitted to high grade sovereign debt and baskets of liquid equities. Cash collateral is not permitted. Details of the collateral held are provided within note 15 of these accounts.

Forward foreign exchange contracts are subject to credit risk in relation to the counterparties of the contracts, which are primarily banks. The maximum credit exposure on foreign currency contracts is the full amount of the contractual settlement should the counterparty fail to meet its obligations to the fund when it falls due. The fair value and full exposure levels of the forward foreign exchange contracts held are provided in note 14 of these accounts.

It is arguable that the fund has significant exposure to credit risk within its bond holdings, the reality is that as the perception of the credit quality of the bond issuer varies through time the market price of the bond varies accordingly, this means that the market risk of these holdings effectively encompasses the counterparty risk.

## Liquidity risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The fund mitigates this risk by monitoring and projecting its cash flow to enable it to have cash resources as they are required and maintains a cash balance to meet working requirements.

A substantial portion of the fund's investments consist of cash and readily realisable securities, in particular equities and fixed income investments that are listed on exchanges. This gives the fund access to in excess of £1bn of assets which could be realistically liquidated into cash in less than a week.

The main liability of the fund is the benefits payable, which fall due over a long period and the investment strategy reflects the long term nature of these liabilities. The estimated present value of these obligations is shown on the net asset statement of these accounts and the value of these benefits that fell due in the past financial year is shown on the fund account of these accounts.

The forward foreign exchange contracts held by the fund do give rise to a liquidity risk as they must be settled at a prescribed date agreed at the time of placing the contract. The exact size of this liability varies in line with foreign exchange prices on an on-going basis. The furthest date at which some of these contracts expire is never more than 6 months and the cash flows involved are regularly monitored to ensure we can meet these liabilities as they fall due. The fair value and full exposure levels of the forward foreign exchange contracts held are provided in note 14 of these accounts.

The bond futures have daily margin calls and no cash liability beyond these. The size of the daily margin calls are typically around £20,000 and on occasion as large as £75,000 and therefore do not pose a significant liquidity risk to the fund.

## Note 24: Fair Value Hierarchy

The fund measures fair values using the following hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Unadjusted quoted prices in an active market for identical assets or liabilities that the fund has the ability to access at the measurement date.
- Level 2: Inputs other than quoted prices under Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Unobservable inputs for the assets or liability used to measure fair value that rely on the fund's own assumptions concerning the assumptions that market participants would use in pricing an asset or liability.

The table below analyses the fund's investment assets at 31 March 2015 into the 3 levels of the fair value hierarchy.

Asset Class	Level 1 £ millions	Level 2 £ millions	Level 3 £ millions	Total £ millions
UK equities	411.609			411.609
Overseas equities	713.319			713.319
Bonds	277.648			277.648
Property funds		154.626		154.626
Private Equity funds			18.955	18.955
Forward foreign-exchange contracts	0.952			0.952
Government bond futures	0.000			0.000
Cash	13.741			13.741
<b>Net investment assets</b>	<b><u>1,417.269</u></b>	<b><u>154.626</u></b>	<b><u>18.955</u></b>	<b><u>1,590.850</u></b>

## **Note 25: Disclosures**

There has been a restatement of the management expenses of the prior year of these accounts. This was necessary to bring the prior year disclosures in line with new CIPFA guidance on the disclosure of expenses within the fund. The restated expenses are £1.25m higher than in the original disclosure for 2013/14.

From the 1<sup>st</sup> April 2013 Far East equity mandate had been run by the in-house team on a passive basis following the removal of UBS Global Asset Management. It was always the intention to hire a replacement external active manager for this mandate and Maple-Brown Abbott were appointed in 2014 and took over control of the assets on 1<sup>st</sup> August 2014.

Under IFRS the fund must disclose what consideration it has given to accounting standards that have not been adopted. For the 2014-15 accounts the relevant standards relate to the accounting of fair value measurement (IFRS13), levies (IFRIC21) and annual improvements to a number of standards. The changes resulting from the annual improvements cycle and IFRIC21 are not relevant to the fund. It is possible that the changes to fair value measurement could have a material effect on these accounts, this new standard comes into effect for accounting periods beginning on or after 1 January 2013, but CIPFA/LASAAC Local Authority Accounting Code Board have decided to defer the implementation of this standard to the 2015/16 Code, so there will be no impact to our accounts during 2014/15.

A handwritten signature in black ink, appearing to read 'K Nacey', with a stylized flourish at the bottom.

**Kevin Nacey, Director of Finance and Performance**  
**24 September 2015**

# Glossary of terms

**This section explains complicated terms that we have used throughout this document.**

## **Accruals**

An amount shown in our accounts to cover money we owe or money owed to us, in the financial year, but which we will not actually pay or receive until the following year. (See also Creditors and Debtors.)

## **Accumulated funds**

Reserves that have built up over a period of time.

## **Actuarial gains or losses**

The actuarial gains or losses to the pension fund are made up of:

- actual gains or losses to the value of the fund's investments;
- changes to the number, age and sex of staff that contribute to the pension fund; and
- changes to the assumptions about the growth of investments and the liabilities of the scheme.

## **Admitted organisations**

Organisations that take part in the Local Government Pension Scheme with our agreement. Examples of these organisations include housing associations, development agencies and companies providing services that we used to provide. (See also Scheduled organisations.)

## **Apportionment**

A way of sharing the cost of management and administration to services using an appropriate method (for example, the amount of floor space taken up by accommodation-related support services).

## **Associate**

An organisation or company other than a subsidiary or joint venture in which we have an interest and over whose operating and financial policies we have a lot of influence.

## **Best value**

Under the Local Government Act 1999, we must constantly aim to improve our services. We must review all our functions within a five-year period. The aim is to make a real and positive difference to services which local people receive.

## **Biodegradable municipal waste**

Household waste that naturally breaks down or rots over time.

## **Capital charges**

Charges we make to services for using fixed assets when providing the service.

## **Capital contributions and grants**

Money we receive towards paying for capital spending on a particular service or scheme.

## **Capital financing charges**

The charge to our capital financing reserve for repaying loans. It does not include:

- interest on the loans; or
- the direct cost of buying assets in the year.

**Capital receipts**

The proceeds from selling assets such as buildings.

**Capital spending**

Our spending on buying or creating a fixed asset or spending that adds to and does not just maintain the value of an existing asset, for example, land, buildings, roads, new furniture, vehicles and equipment.

**Capitalisation**

Capitalisation of an asset takes place when its cost is written off bit by bit, over its useful life, instead of writing off the cost in the year the asset was bought.

**Carry-forwards**

Revenue budgets we have not spent, which services can use in future years.

**Cash-limited budgets**

Fixed amounts of money, including allowances for pay and price increases, given to departments to run their services. All spending should be met from these budgets. This also involves flexibility in carrying forward underspending and overspending.

**Central Government Grants**

There are different types of grant.

- Revenue Support Grant – the main government grant to support local-authority services.
- Specific service grants – payments from the Government to cover local-authority spending on a particular service or project (for example, Standards Fund for schools). Specific grants are often a fixed percentage of the costs of a service or project.
- Supplementary grants – grants towards capital spending for highway schemes.

**CIPFA**

The Chartered Institute of Public Finance and Accountancy. This is the professional institute governing how public money is used and how it has to be reported.

**Collection funds**

Accounts which district councils keep to record the amounts of council tax collected.

**Comfund**

We operate a joint scheme called the Comfund to earn the best possible interest on our investments. We invest our spare reserves into this scheme, together with investments from other organisations who also take part.

**Community assets**

Assets that we plan to hold forever, have no set useful life, and may have restrictions on how we sell or otherwise dispose of them. Examples of community assets are parks, historic buildings and various conservation works.

**Contingent liability**

A possible liability which may arise when we know the outcome of claims made against us which have not yet been settled.

**Co-optee**

A person who is not a member of the council but is a member of a committee or sub-committee of the council.

**Corporate and democratic core**

Spending relating to our need to co-ordinate and account for the many services we provide to the public.

**Creditors**

People we owe money to for work, goods or services we receive but which we have not paid for by the end of the financial year.

**Current value**

The cost of an asset if bought in the current year.

**Debtors**

People who owe us money that we are due to receive but which we have not been paid by the end of the financial year.

**Deficit**

There are two types of deficits. A fund is said to be in deficit when its liabilities are higher than its assets. An in-year deficit is achieved when spending is higher than income.

**Depreciation**

The reduction in the value of assets, for example, through wear and tear.

**Fair value**

The price at which we could buy or sell an asset or loan in a transaction with another organisation, less any grants we receive towards buying or using that asset.

**Finance leases**

Leases where we treat the organisation paying the lease as if they own the goods. The organisation gains the profits that would come with ownership but it also suffers the losses. (See Operating leases.)

**Financing transactions**

Also known as interest and investment income. They mainly relate to interest payments and receipts associated with managing our cash flow and reserves during the year.

**Fixed assets**

Items such as land, buildings, vehicles and major items of equipment, which benefit us over more than one year.

**General reserves**

The amounts we have built up this year, and over earlier years, that we have not set aside for specific purposes.

**Gross book value**

This is the original or revalued cost of an asset before any depreciation is taken off it. (See also Net Book Value.)

**Historical cost**

What a fixed asset cost us to buy originally.

**IFRIC**

International Financial Reporting Interpretations Committee. IFRIC reviews newly identified financial reporting issues not specifically addressed in IFRS or issues where unsatisfactory or

conflicting interpretations have developed, with a goal to reaching a consensus on the appropriate treatment.

## **IFRS**

International Financial Reporting Standards are issued and set by the International Accounting Standards Board (IASB). These are standards that companies and organisations follow when compiling financial statements and replace FRS.

## **Impairment**

Where an asset's value has been reduced by physical deterioration or other factors beyond usual wear and tear. The asset's value in the accounts also has to be reduced to reflect this impairment.

## **Infrastructure**

A fixed asset that cannot be taken away or transferred, and which we can only continue to benefit from by actually using it. Examples of infrastructure are roads, bridges and footpaths.

## **Intangible assets**

Non-financial fixed assets that do not exist physically but that the council owns or has a right to use. Examples include software licences and brand names like 'Coca'Cola'.

## **Levies**

The money we pay to the Environment Agency (for flood defence and land drainage purposes).

## **Long-term investments**

Those investments which we plan to hold on a continuous basis (for example, shares in South West One).

## **Material error**

A mistake in the accounts that could be serious enough to influence the reader's opinion of our financial performance or position.

## **Minimum debt repayment or minimum revenue provision**

The amount we have to set aside to repay loans. It is set at 4% of our total borrowing.

## **National Non-Domestic Rate (NNDR) income (also known as Uniform Business Rate, or UBR)**

District councils collect this from non-domestic properties, at a national rate set by the Government. The proceeds are pooled nationally and redistributed to areas according to the size of their population.

## **Net book value**

The value of an asset as recorded in the accounts. It is usually the net current replacement or original cost less any depreciation we have charged.

## **Net current replacement cost**

The cost of replacing an asset in its existing condition and use.

## **Net present value**

The net present value (NPV) of an asset is the current net value of the future receipts and payments associated with it.

## **Net realisable value**

The selling value of an asset less the costs of selling it.

**Net service underspend**

A service's total spending less that service's allocated budget, plus money that is carried forward from previous years.

**Netted off**

Where the money we are due to pay is reduced by the money that is owed to us.

**Non-distributed costs**

Specific overheads relating to unused assets and certain pension costs for employees' service in previous years. These are not allocated to service departments because they do not relate to the current year's cost of providing the service.

**Non-funded pension schemes**

Pension schemes that do not have an actual fund from which pensions are paid and contributions are made into. Instead payments are made to current pensioners directly from the year's budget. The teachers' pension scheme is an example of a non-funded scheme that we run.

**Notionally funded pension schemes**

A form of non-funded pension scheme that are treated similarly to funded schemes. There is no stock of investments, but employer contribution rates are set as if there were investments, based upon figures set by government actuaries. The Teachers' Pension Scheme is notionally funded.

**Operating leases**

Under this type of lease, the risks and rewards of ownership of the leased goods stay with the company leasing out the goods.

**Operational assets**

Those assets (for example, land and buildings) that we use so we can provide services.

**Other operating costs**

Includes spending on buildings, fuel, light, rent, rates, buying furniture and equipment, administration and other costs.

**Pensions equalisation reserve**

Money we have set aside to maintain the level of pension charges to revenue for social services schemes jointly paid for by the health authority.

**Precept**

What we demand from the collection funds maintained by the district councils.

**Principal**

The original amount borrowed. It does not include interest or other charges.

**Procurement**

The process of gaining the use of supplies, services and construction work.

**Projected unit method**

A common method by which actuaries estimate the cost of future benefits to a pension scheme. The method works out the costs of future benefits members are expected to earn over a period (usually a year) following the valuation date, allowing for future increases in pay until retirement or the date a member leaves service.

**Provisions**

Money we keep to pay for known future costs.

**Provision for credit liabilities**

Money we set aside to repay debts or to cover spending which we have borrowed money for. We include these details in the Capital Adjustment Account.

**Prudential Code**

The Prudential Code has been introduced by the regulations supporting the Local Government Act 2003. Local authorities can borrow money to pay for capital spending in a similar way as people can get a mortgage to buy a house. Until April 2004, the Government used to tell local authorities how much they could borrow. This code replaces central government control with self-regulation — each local authority is now responsible for deciding how much it can afford to borrow. Under the regulations, when we are making this decision we must keep within the Prudential Code, which sets out the principles that local authorities must follow. These include the following.

- Affordability – can we afford to make the repayments?
- Prudence – are we planning to borrow sensibly?
- Value for money – will the loan pay for something that is good value for money?
- Service delivery – will the loan help us to provide our services in the way we want to?

**PWLB**

The Public Works Loan Board, a government agency which lends money to the public sector.

**Remuneration**

Includes taxable salary payments to employees less employees' pension contributions, together with non-taxable payments when employment ends (including redundancy, pension enhancement payments, and pay in lieu of notice), taxable expense allowances and any other taxable benefits.

**Revenue spending**

The day-to-day spending on employment costs, other operating costs and capital charges, less any income from fees, and charges.

**Ring-fenced grant**

This is money that can only be used for certain things.

**SAP**

Our computerised accounting and procurement system.

**Scheduled organisations**

Local government organisations that have automatic rights to take part in the Local Government Pension Scheme. Examples include the County Council, Police Authority, district and town councils, further-education colleges, National Park Authority and the probation service. (See also Admitted organisations.)

**Surplus**

There are two types of surplus. A fund is said to be in surplus when its assets are higher than its liabilities. We achieve an in-year surplus when our income is higher than our spending.

**Tangible assets**

Operational assets, non-operational assets and assets currently being built.

**The Code**

The Code of Practice on Local Authority Accounting. Provided by CIPFA this takes over from the SORP and includes the move to international accounting standards. The Code provides details and definitions on subjects for which it was not considered appropriate to issue an international financial reporting standard (IFRS).

**Transfer values**

Payments made between pension schemes of accumulated pension funds for employees who change their employment.

**Work-in-progress**

The value of work on an unfinished project at the end of the year.

**Write down**

To reduce the value of an asset in a set of accounts.

**Write off**

To reduce the value of an asset to nothing in a set of accounts.

## More information

If you have any comments or feedback on these accounts, please contact us. This will help us to provide a more informative and useful document.

For more information on these accounts, or for extra copies, please write to:

Lizzie Watkin FCCA  
Chief Accountant  
County Hall  
Taunton  
Somerset  
TA1 4DY.

Phone: 01823 359573  
E-mail: [ewatkin@somerset.gov.uk](mailto:ewatkin@somerset.gov.uk)

These accounts are also available on the internet at [www.somerset.gov.uk/accounts](http://www.somerset.gov.uk/accounts)

These accounts are also available in Braille, in large print, on tape and on CD and we can translate them into different languages.



