SOMERSET COUNTY COUNCIL

STATEMENT OF ACCOUNTS

2015/16

AUDITED & APPROVED ACCOUNTS

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

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SOMERSET County Council

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Narrative Report from the Chief Finance Officer

This section highlights some of the most important matters reported in the accounts and comments on the authority's financial performance and its economy, efficiency and effectiveness in its use of resources over the financial year.

Introduction

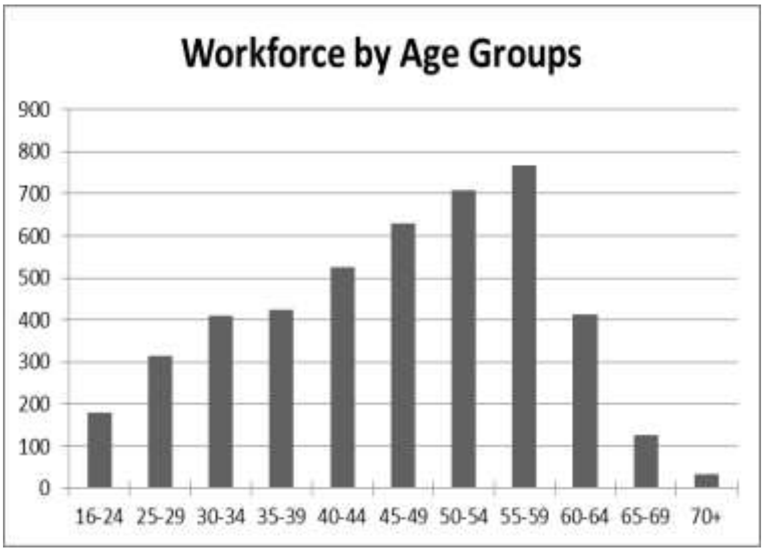
Somerset Context

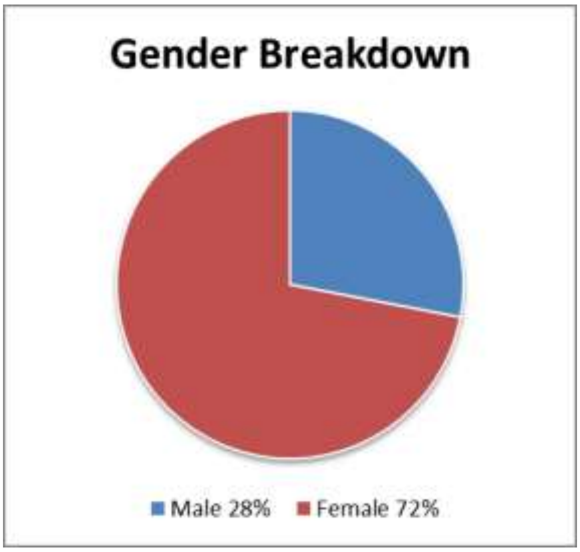
Somerset is a beautiful county with many assets including a strong and significant heritage and vast areas of countryside and moors. Somerset's population is classified as around 52% urban and 48% rural, making it one of the ten most rural counties in England. In particular, the district of West Somerset has the sixth lowest population density of any local authority in England. One third of people live in one of the county's four largest towns: Taunton, Yeovil, Bridgwater and Frome.

The population of Somerset is approximately 540,000 with an age profile that is weighted slightly towards people of older age; the average age in Somerset is 46 compared to 40 nationally.

People Context

Somerset County Council employed 4,529 people in full and part time contracts on 31st March 2016. Employees are a valued significant resource within the authority and employees costs account for 35% of the total gross expenditure. The authority's workforce profile can be seen in the charts below.



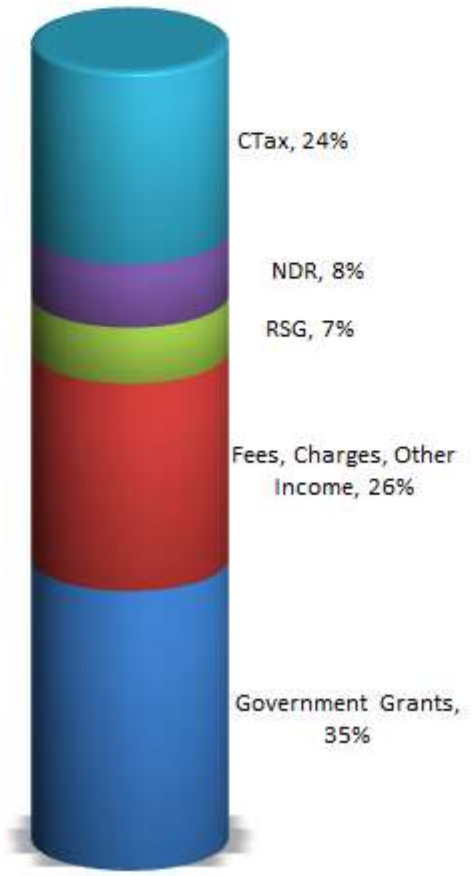


Financial Context

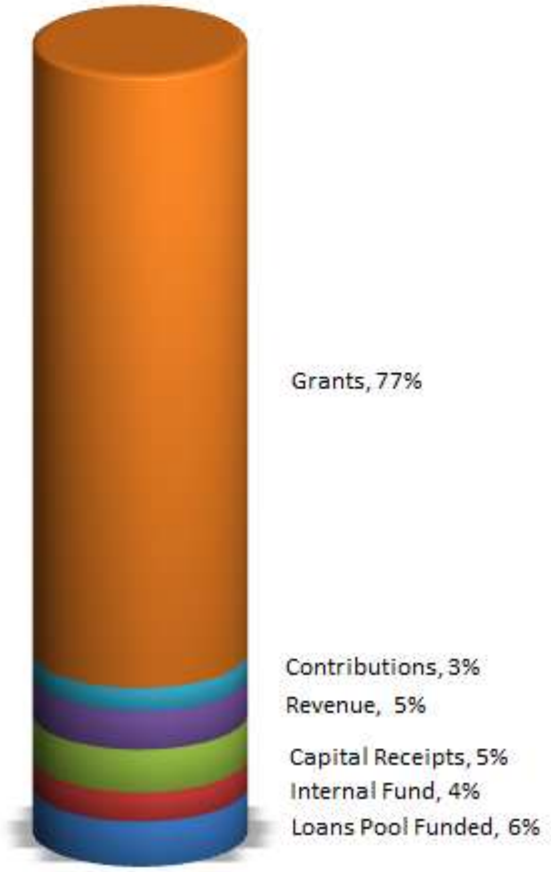
Nationally, 2015/16 was a relatively stable year for the Local Government sector with no significant changes in funding mechanisms or responsibilities. The main focus therefore remained on mitigating the continued austerity measures which reduced the Authority's core revenue funding by 12.1%. In February 2015, we agreed our budgets for 2015/16; revenue at £314.7 million which resulted in a band-D council tax of £1,027.30 for the sixth successive year and the Capital Investment Programme for 2015/16 of £57.356m.

The diagrams below show where our money came from. It is important to note that the contribution from the local community through the Council Tax represents just 24% of our revenue funding needs.

Revenue



Capital



Developments for the year

Childrens' Services

Locally, the most significant issue affecting Somerset was the outcome of the Children's Services Ofsted inspection. In January 2015 Ofsted inspectors carried out inspections of 'services for children in need of help and protection, children looked after and care leavers' and a 'review of the effectiveness of the local safeguarding children board', both of which were found to be inadequate.

An urgent multi-agency plan, consisting of nine priorities, was developed and approved in May 2015 as the key focus areas to deliver rapid improvement in Somerset's children's services.

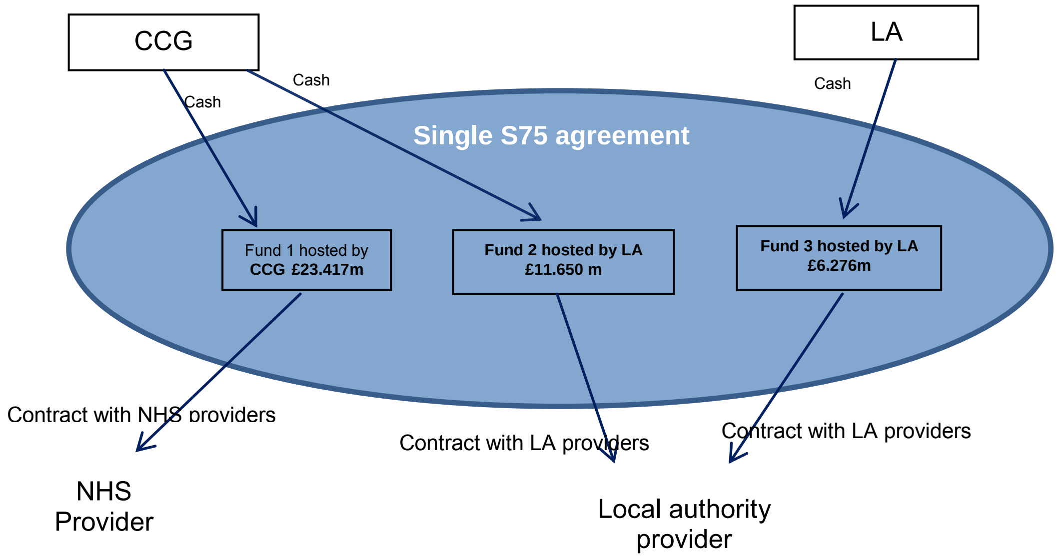
The nine priorities are now concluding, having achieved the agreed objectives.
There remains much to do and the forward focus will be the delivery of the new Children and Young People's Plan over a three year period. This takes the Authority beyond compliance and towards delivering quality, resulting in sustained improved outcomes for vulnerable children and young people in Somerset.
Progress is reported regularly to the Scrutiny for Policies, Children and Families.

See below for a link to latest reports:

http://www1.somerset.gov.uk/council/meetings/reports.asp?item=1336

Better Care Fund
In 2015/16 the Better Care Fund was established by the Government to provide funds to local areas to support the integration of health and social care and to seek to achieve the National Conditions and Local Objectives. It is a requirement of the Better Care Fund that NHS Somerset Clinical Commissioning Group and Somerset County Council establish a pooled fund for this purpose, which was achieved in 2015/16 through a signed agreement under Section 75 of the National Health Service Act 2006.

Under this Section 75 agreement there are three funds totalling £41.343m and hosted by whichever body undertook the contracting arrangements. These funds support the four schemes supported by the Better Care Fund namely Reablement, Person-centred care, Avoiding Admissions for Older People and Housing Adaptions. The Somerset Better Care Fund arrangement is shown diagrammatically below.



More detail about this arrangement can be found within the Pooled Budget disclosure note in the Statement of Accounts on page 76.

Somerset Skills and Learning
On 1st August 2015 one of the Authority's trading units Somerset Skills and Learning successfully transferred to a Community Interest Company. This can be seen in the accounts and is shown as a discontinued service (page 65). The Authority does not hold any legal interest in this new company. The new company continues to provide an extensive range of high quality learning opportunities, accessible to residents and businesses in Somerset and the surrounding areas.

Schools funding
The fair funding consultation and the Educational Excellence Everywhere white paper issued March 2016 sets out central government's plans for education over the forthcoming 5 years. The impact of these initiatives is not certain.

Schools converting to Academy status
Somerset schools have continued to opt to transfer to Academy status. During the year one school transferred. A further two schools have subsequently transferred early in 2016/17, one in May and one in June 2016 and a further six have applied to transfer in the future. There are also two new schools opening in Yeovil in September, both of which will be Academies. The transfer of a maintained school to Academy continues 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.

Heart of the South West Local Enterprise Partnership
During 2015/16, the Authority was successful in its bid for Growth Deal funding from the Government's Local Growth Fund, a fund set up to fund projects that benefit local areas and economies. DCLG awarded £43m to the Heart of the South West Local Enterprise Partnership (HoSW LEP) and was payable to Somerset County Council as the accountable body for the Local Growth Deal.

More information on the Heart of the South West LEP can be found here:
www.heartofswlep.co.uk

Performance for the year

This year the authority updated and improved its Performance Management Framework. This framework applies to all those engaged in the delivery of the Council's vision. It sets out the principles of performance management and clarifies the layers and cycles of performance management in the Authority.

As part of the revision to the Performance Management Framework, Corporate Scorecards have been introduced at Senior Leadership Team (SLT) level and are beginning to be introduced throughout the organisation. The Planning and Performance team have supported SLT in the creation and development of director level scorecards, and a brief document has been developed outlining the basic theory behind the original Balanced Scorecard and how this can be adapted for use within the context of local government and the authority. The Planning and Performance team and SLT are now beginning the work to develop the scorecards throughout the organisation with links back to the County Plan and Commissioning, Operation and Service Plans.

In response to the revision to the County Plan and public consultation the Authority is refreshing its Corporate Performance report to align to the new County Plan 2016-20 and better synergise with the new Scorecards. The measures within will also relate to newly developed plans such as the Children and Young Peoples Plan, the Joint Strategic Needs Assessment and Somerset's Strategy for Achieving Excellence for All.

Throughout the year work has been underway to drive improved value for money (VFM) across the Authority. Work has also begun on a VFM and benchmarking learning guide with emphasis on how to assess Value for Money and also where and how to perform Benchmarking activities.

The table below summaries overall performance against objectives and the full performance information is being reported to Cabinet on 8th June 2016.

Metric Segment	Number of objectives			Direction of Travel		
	Green	Amber	Red	Up	Stable	Down
Outcomes	2	6	2	2	6	2
Finance		2			1	1
Risk		1			1	
People and Business	3				3	
Process	2				2	
Customers & Communities	2				2	
Totals	9	9	2	2	15	3
As Percentage	45%	45%	10%	10%	75%	15%

Summary of Financial Performance

Revenue spending in 2015/16

In February 2015, the Authority agreed its budget for 2015/16 at £314.7 million. This resulted in a band-D council tax of £1,027.30 for the sixth successive year. The following table shows our actual spending across our service headings. 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 58.

Table 1: Comparison of actual spend against budget

Service	2015/16 budget £millions	2015/16 actual spend £millions	Difference £millions	Difference %
Adults & Health - Operations	92.6	93.9	1.3	1.4
Children & Families - Operations	51.1	55.6	4.5	8.8
Learning Disabilities - Operations	27.5	27.5	0.0	0.0
Somerset Waste Partnership	27.7	26.8	-0.9	-3.2
Adults & Health - Commissioner	18.8	18.5	-0.3	-1.6
Children & Learning - Commissioning	22.8	22.7	-0.1	-0.4
Schools	22.0	22.0	0.0	0.0
Public Health	2.4	2.4	0.0	0.0
Highways & Traffic Management	12.5	11.7	-0.8	-6.4
Transporting Somerset - Public, FE & Concessionary	11.4	11.9	0.5	4.4
Other Direct Services	14.9	14.3	-0.6	-4.0
Support Services & Trading Units	37.7	35.9	-1.8	-4.8
	341.4	**343.2**	**1.8**	**0.5**
Non-service items and in year funding deficit (costs such as bank charges that cannot be linked to a particular service)	-26.7	-29.0	-2.3	8.6
	314.7	**314.2**	**-0.5**	**-0.2**
Funded by:				
Revenue Support Grant	-57.6	-57.6	0	
Business Rates	-62.8	-62.3	0.5	
Council Tax	-194.3	-194.3	0	
	-314.7	**-314.2**	**0.5**	

Capital spending in 2015/16

Alongside our day-to-day costs, the Authority spends money on assets such as buildings, roads, vehicles and information and communications technology. This is capital spending. During 2015/16 our capital spending was £105.993m (£94.178m in 2014/15). The following table gives more detail on how we spent this money.

Table 2: Major Capital Schemes

Scheme		2015/16 £millions	£millions
Economic Community and Infrastructure	Road Structures	21.457	
	Local Enterprise Partnership	18.819	
	Superfast Broadband	11.868	
	Somerset Innovation Centre	3.208	
	Somerset Rivers Authority	2.602	
	Other Projects	23.935	
			81.889
Children and Learning	General Education Provision	5.832	
	Schools' Capital Repairs	4.453	
	Schools' Building Improvements	3.477	
	Schools' Basic Need	2.114	
	Early Years	1.210	
	Other School Projects	1.194	
	Other Children's Services	0.381	
			18.660
Support Services	Smart Office - County Hall B Block Refurbishment	2.130	
	Scientific Service's New Office at Chelston	0.377	
	ICT Investment and Development	0.231	
	Other Projects	0.919	
			3.657
Learning Disabilities	Minor Works	1.093	
	The Old Farmhouse/The Briars Property Reconfiguration	0.532	
	Other Projects	0.061	
			1.686
Adults and Health	Somerset Choices	0.078	
	Other Projects	0.022	
			0.100
	Total Capital Spending		105.993

Borrowing facilities

Under the Prudential Code, the Authority has set an authorised limit against which our external borrowing is monitored and managed. For 2015/16, the total approval was £441 million (next year's approval is £440 million). On 31 March 2016, the amount we owed was £348.5 million (£343.0 million in 2014/15).

On 31 March 2015 £millions	Borrowing	On 31 March 2016 £millions
160.3	Public Works Loan Board (PWLB)	160.3
173.2	Other long-term loans	173.3
0.0	Other short-term loans	5.0
9.5	Other organisations investing in the Comfund (note 31)	9.9
343.0		348.5

In line with accounting practice, the Authority must show the 'fair value' of its loans. The fair value of the PWLB loan is £208.406 million at 31 March 2016 (£238.382 million at 31 March 2015). The fair value of the other long-term loans is £241.731 million at 31 March 2016 (£267.194 million at 31 March 2015).

Significant Assets & Liabilities

The Authority has a strong Balance Sheet as at 31 March 2016 (page 56) with the most significant Assets and Liabilities shown in the table below:

On 31 March 2015 £millions	Balance Sheet Extract	On 31 March 2016 £millions
834.3	Property, Plant & Equipment	869.9
187.1	Short Term Investments	223.7
69.7	Cash & Cash Equivalents	39.1
-333.5	Long term Borrowing	-333.6
-45.7	Long Term Liability - PFI/Lease	-44.7
-742.6	Long Term Liability - Pensions	-688.3
142.1	Usable Reserves	114.7
-217.0	Unusable Reserves	-130.5

The Authority's Highways Infrastructure assets are a major part of the asset portfolio. They are currently valued at historic cost and depreciated on a straight line basis over 25 years. It has long been recognised that this method of reporting significantly undervalues this type of asset. The proposal for future years is to value this asset type, now known as the Highway Network Asset, on a depreciated replacement cost (DRC) basis. This is a representation of replacing the network at a modern equivalent cost, with consideration to the condition of the network. The accounting changes will be adopted in 2016/17 and will apply prospectively. The current value of the infrastructure assets is £313.210 million. Under the DRC methodology it is anticipated the Highways Network Asset will be reported in the 2016/17 accounts at approximately £9-£10 billion. This will increase the value on the authorities Net Assets with a corresponding increase in Unusable Reserves.

Usable Reserves

On 31 March the Authority had the following reserves available:

On 31 March 2015 £millions	Reserves	On 31 March 2016 £millions
23.8	Capital reserves	21.3
12.2	Capital Grants/Contributions Unapplied Reserves	9.4
13.8	Revenue reserves set aside for capital	11.2
41.9	Other revenue reserves which we have set aside	28.6
23.4	Schools' carry-forward fund	25.5
1.3	Services' carry-forward fund	-2.3
25.7	General reserves (see the note below)	21.0
142.1		114.7

General reserves represent just 6.6% of the 2015/16 budget. This shows that the Authority needs to continue to operate within very strict financial limits.

Montacute House

Future Developments & Priorities
Looking ahead to 2016/17 and the future

Economic outlook

UK GDP growth rates of 2.2% in 2013 and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate, forecast at 2.5%, is likely to be a leading rate in the G7 again. The strong growth since 2012 has resulted in unemployment falling quickly to a current level of 5.4% (February 2016).

The Bank of England's February Inflation Report includes a forecast for growth to remain between 2.5% – 2.7% over the next three years. However for this recovery to become more balanced and sustainable in the longer term, it still needs to move away from dependence on consumer expenditure and the housing market to manufacturing and investment expenditure.

That report also indicates that inflation will slowly creep up to be 1.5% by the end of 2016/17, and above the 2% target in 2018 and 2019. However, forecasts for interest rates remains low, with little movement until 2018 and then only reaching 1.1% in 2019. Both of these forecasts include the assumption that the stock of purchased assets (Quantative Easing) remains at £375 billion throughout the forecast period.

Growth in UK house prices continues to be buoyant but slowed to 7.6% in the year to February, according to the Office for National Statistics (ONS). However, price increases were particularly strong in the East and South West of England, where the ONS index reached a record high. Therefore house prices continue to increase faster than wages although pay, with growth of 2.9%, is now growing at its fastest rate for six years. The price of crude oil is rising again, suggesting prices at the pump will begin to increase once more.

Austerity – The impact on Local Government Funding

Historic			Future	
Year	**£m**		**Year**	**£m**
2010/11	**£3m in-year**		**2016/17**	**£16m**
2011/12	**£22m**		**2017/18**	**£15m**
2012/13	**£2m**		**2018/19**	**£8m**
2013/14	**£19m**		**2019/20**	**£8m**
2014/15	**£12m**			
2015/16	**£19m**			
TOTAL	**£77m**			**£47m**

Local Government funding has been significantly affected by the government's austerity measures as spending on public services has been dramatically reduced. It began with an in-year cut to funding announced at part of the coalition's emergency budget. Since then, there have been significant changes to the funding structure through the localisation of business rates and council tax support along with further reductions to that funding. Over the period 2010/11 to 2015/16, SCC's core funding received from government reduced by £77m per annum.

The latest funding settlement was announced in December 2015. It covers the four-year period 2016/17 to 2019/20. This advises that the core funding will cease by the end of this parliament, with Revenue Support Grant ending, and Business Rates becoming 100% retained locally. Therefore, SCC is set to lose a further £47m per annum.

The settlement also includes for some authorities a negative Revenue Support Grant allocation, although not Somerset quite yet. This effectively increases the levy on business rates. The concern is that there does not appear to be a cap on this levy, and so potentially Somerset could end up paying government significant sums. For example, Dorset County Council's allocation includes a levy of over £10m per annum by 2019/20.

This means that local government funding is 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 authority 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 Authority again 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 Authority is £16m in 2016/17 and totals almost £38m across the remaining four-years of this funding settlement. Medium Term Financial Plan papers can be found using the following link:

http://www1.somerset.gov.uk/council/meetings/reports.asp?item=1292

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 Authority 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.

SouthWest One

The authority has agreed an early exit from the Southwest One contract, with services being brought back in-house by November 2016. The Authority expects the costs to fall significantly once it has regained control of those services.

Devolution

Devolution is viewed by the government as the most effective way to create jobs, build homes, strengthen healthy communities and protect the vulnerable in all parts of the country. A bid has been submitted to government covering the geographical area of the Heart of the South West Local Enterprise Partnership, with the local authorities for Somerset, Devon, Plymouth, and Torbay along with 13 district councils, Dartmoor and Exmoor national parks, the local NHS included. The Authority waits to hear the response from Government, but the expectation is significant improvements in productivity, better-paid jobs, improved road, rail and broadband links and more homes for the region's growing population. The plan would also see radical reforms to integrate health and social care that would allow the ageing population to be better looked after, tailored support for growing businesses and the creation of a centre of excellence for skills development.

Summary

To date, the Authority 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.

The Statement of Accounts

The annual Statement of Accounts sets out a summary of our financial affairs for 2015/16 and shows our financial position as at 31 March 2016. 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 166.

Inspection and audit

The Authority made these accounts available for public inspection (from 2 June to 14 July) so that people who pay Council Tax and rates, and other members of the public, can 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 28 July 2016.

Kevin Nacey CPFA
Director - Finance and Performance
(Chief Financial Officer)
28 July 2016

Somerset Levels at sunset

Statement of Responsibilities

This section explains the Authority's 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 2016 and its income and spending for the year ending on that date.

KBNacey

Kevin Nacey CPFA
Director – Finance and Performance
(Chief Financial Officer)
Somerset County Council
28 July 2016

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF SOMERSET COUNTY COUNCIL

We have audited the financial statements of Somerset County Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). 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 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the 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 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the 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 Narrative Report and the Annual Governance Statement 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:

- present a true and fair view of the financial position of the Authority as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 24 of the Act; or
- we make a written recommendation to the Authority under section 24 of the Act; or
- we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

Respective responsibilities of the Authority and 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 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources and to report to you if we are not satisfied that the Authority has made proper arrangements. 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 the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. 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 has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

Basis for qualified conclusion

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

In January 2015 Ofsted inspectors carried out inspections of 'services for children in need of help and protection, children looked after and care leavers' and a 'review of the effectiveness of the local safeguarding children board', both of which were found to be inadequate. The report concluded that:

- oversight, scrutiny and challenge from corporate leaders has not been sufficiently robust;
- chronic instability at all levels of the organisation, poor practice and a culture of mistrust have been allowed to persist.

A multi-agency plan was developed and approved in May 2015, detailing the key focus areas to deliver rapid improvement in Somerset's children's services. There has been regular reporting and monitoring throughout the year of the actions taken to improve the service but at the date of our opinion, the Authority had yet to deliver all the required actions highlighted in the report to implement and embed the improvement strategies which are due to be completed by September 2016.

This matter is evidence of weaknesses in proper arrangements for understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management, and for planning, organising and developing the workforce effectively to deliver strategic priorities.

Qualified conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, except for the effects of the matter described in the Basis for qualified conclusion paragraph, we are satisfied that, in all significant respects, the Authority put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

Delay in certification of completion of the audit

We are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2016. As the Authority has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Act and the Code.

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Act and the Code until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2016. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing value for money through economic, efficient and effective use of its resources.

Peter Barber

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

28 July 2016

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOMERSET COUNTY COUNCIL PENSION FUND

We have audited the pension fund financial statements of Somerset County Council Pension Fund (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). 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 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the 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 Responsibilities, the Director of Finance and Performance is responsible for the preparation of the Authority's Statement of Accounts, which includes 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 2015/16, which 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 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 Authority's Statement of Accounts 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 financial statements:

- present a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2016 and of the amount and disposition at that date of the fund's assets and liabilities, and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited pension fund financial statements in the Authority's Statement of Accounts is consistent with the audited pension fund financial statements.

Peter Barber

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

28 July 2016

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOMERSET COUNTY COUNCIL (the "Authority")

Issue of audit opinion on the financial statements

In our audit report for the year ended 31 March 2016 issued on 28 July 2016 we reported that, in our opinion, the financial statements:

- present a true and fair view of the financial position of the Authority as at 31 March 2016 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 2015/16 and applicable law.

Issue of audit opinion on the pension fund financial statements

In our audit report for the year ended 31 March 2016 issued on 28 July 2016 we reported that, in our opinion the pension fund financial statements:

- present a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2016 and the amount and disposition at that date of the fund's assets and liabilities; and
- had been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Issue of qualified conclusion on the Authority's arrangements for securing value for money through economic, efficient and effective use of its resources

In our audit report for the year ended 31 March 2016 issued on 28 July 2016 we reported a qualified conclusion in the following terms:

Basis for qualified conclusion

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

In January 2015 Ofsted inspectors carried out inspections of 'services for children in need of help and protection, children looked after and care leavers' and a 'review of the effectiveness of the local safeguarding children board', both of which were found to be inadequate. The report concluded that:

- oversight, scrutiny and challenge from corporate leaders has not been sufficiently robust;
- chronic instability at all levels of the organisation, poor practice and a culture of mistrust have been allowed to persist.

A multi-agency plan was developed and approved in May 2015, detailing the key focus areas to deliver rapid improvement in Somerset's children's services. There has been regular reporting and monitoring throughout the year of the actions taken to improve the service but at the date of our opinion, the Authority had yet to deliver all the required actions highlighted in the report to implement and embed the improvement strategies which are due to be completed by September 2016.

This matter is evidence of weaknesses in proper arrangements for understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management, and for planning, organising and developing the workforce effectively to deliver strategic priorities.

Qualified conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, except for the effects of the matter described in the Basis for qualified conclusion paragraph, we are satisfied that, in all significant respects, the Authority put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

Certificate

In our report dated 28 July 2016, we explained that we could not formally conclude the audit on that date until we had completed:

- the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement, and
- we had issued our report on the consistency of the pension fund financial statements included in the Pension Fund Annual Report of Somerset County Council Pension Fund with the pension fund financial statements included in the Statement of Accounts.

We have now completed our work on the WGA Component Assurance statement and issued our opinion on the Pension Fund financial statements included in the Pension Fund Annual Report.

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 value for money through economic, efficient and effective use of its resources.

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office on behalf of the Comptroller and Auditor General.

Peter Barber

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

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

18 October 2016

Annual Governance Statement (2015/16)

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.

The Authority also has 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 Authority 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.

The Authority are required under Regulation 4(2) of the Accounts and Audit (England) Regulations 2011 and Regulation 6 (1) (a) of the 2015 Regulations to conduct a review at least once a year of the effectiveness of the Authority's system of internal control and include a statement reporting on the review with the Authority's 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.

The preparation and publication of an Annual Governance Statement in accordance with the principles set out in *Delivering Good Governance in Local Government* meets the Authority's 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 2016 and up to the date of approval of the Statement of Accounts. The Authority continually seeks to improve its governance arrangements, and evidence of continued "best practice" are found within the governance reviews referred to below.

Our governance framework

The Authority's governance framework is strongly aligned to the guidance provided by CIPFA and SOLACE. 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 the Authority has 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.

A new vision document, The County Plan 2016-2020, has been developed during 2015/2016, and was approved by Full Council in February 2016. Produced in two sections, it provides the aspirations for the Authority and its partners over a longer timescale than the span of the Plan itself. The Plan also provides priorities and targets that align with the Authority's already agreed 2020 Vision document and the direction of travel of our devolution deal bid for our major services. The targets will be further aligned with the Authority's performance reporting framework – this will allow regular public scrutiny of how the Authority is performing against these targets.

This County Plan is a strategic document that commits the Authority to work with partners- including government, local authorities, businesses and Somerset communities, to deliver the ambitions and aims within the Vision section. In its detailed priorities section, it provides the strategic direction and the foundations for the Medium Term Financial Plan, Service Plans and other relevant plans

Much of the evidence and data that underpin this County Plan has been subject to significant public consultation. In particular it is worth highlighting the Authority's public consultation over priorities through the Listening Learning Changing roadshows. Around 4,000 people took part in these events and the findings have been sent to every town and parish council for their own input, and were published on our internet site.

The Heart of the South West Devolution Prospectus was approved by Full Council in February 2016. This is a significant milestone in the devolution bid, building on the Authority's published Devolution Statement of Intent that was submitted to central government in September 2015. The Statement of Intent was praised by government for its clarity and ambition and focusses on:

- Productivity and economic growth
- Health, social care and wellbeing
- Improved connectivity, infrastructure and resilience
- Governance

Devolution is very much a partnership bid, with 17 local authorities, two National Parks, our Local Enterprise Partnership and three Clinical Commissioning Groups ready to negotiate a devolution deal with central government. As with the County Plan, the Authority's Devolution Prospectus is available on the intranet, and significant consultation has already taken place. The County Council report makes the commitment that the final 'bid' and devolution deal will also be made public. The final devolution deal will also be subject to further approval / ratification by all partners and appropriate consultation on delivery of the deal.

The importance of working with our partners to achieve the Authority's Vision remains of critical importance. The Authority understands, particularly with the reducing resources at its disposal, that this often represents the most effective delivery mechanism. The County Plan recommendations specifically note that the Authority's ambitions can only be delivered in partnership.

The Authority continues to work positively with the Local Enterprise Partnership, the Heart of the South West LEP. The Authority's positive relationship with the Local Enterprise Partnership, and their continued success in attracting significant funds for investment into the region, will be key in delivering a number of transport and infrastructure projects critical for economic growth in Somerset

With our Public Health statutory responsibilities and social care demands, the Authority continues to work closely with the National Health Service to improve the outcomes for residents, working towards integration of care and health services. The Cabinet received 2 specific agenda items during 2015/2016 in relation to closer integration with health, looking at outcomes based commissioning in Somerset. The Authority has the opportunity to take a role in the future commissioning of both health and social care in Somerset and to influence, shape and be an active part of the design and delivery for future services. Our Adults and Health Commissioning Intentions contain a specific commitment to work with stakeholders and partners, in particular the CCG, to develop integrated care delivery and integrated commissioning. Cabinet has agreed that the Authority via the Chief Executive engages with Somerset Clinical Commissioning Group and NHS England on closer integration of health and social care commissioning. It has also agreed in principle to future discussions to pool budgets for health and social care.

The ring-fenced Better Care Fund (BCF) will provide financial support for councils and NHS organisations to jointly plan and deliver local services. The Authority already has the ability to commission both in its own right and in pooled arrangements with the CCG (through the use of 'Section 75' agreements). The conditions of access to the Better Care Fund require Health and Wellbeing Boards to jointly agreed plans for how the money will be spent, with these plans signed-off by the Authority and the CCGs. Improved Better Care Funding will be a crucial component of the overall financial position for the Authority in the medium term.

The Somerset Rivers Authority (SRA) was launched on January 31, 2015 to play a key role in flood protection for the County. The SRA's purpose is to deliver higher standards of flood protection than would be funded nationally, and to create better flood protection and resilience against further flooding by joint planning and delivery (where possible). The SRA was set up with interim funding of £2.7m for the financial year 2015/16, from the Department for Environment, Food and Rural Affairs (£1.9m); Somerset County Council (£600k), the county's five District Councils and the Somerset Drainage Boards Consortium (£200k all together). It is run by a Board of partners from the five District Councils, Somerset County Council, the Environment Agency, the Parrett and Axe Brue Internal Drainage Boards, the Wessex Regional Flood & Coastal Committee and Natural England.

Partners' existing flood management responsibilities, accountabilities and funding have not changed but through the SRA their work is co-ordinated to ensure that their collective experience and knowledge benefits Somerset's flood risk management. A dedicated website details the work undertaken in the year.

The Authority continues to work with Devon and other partners as Connecting Devon and Somerset, to roll out Superfast Broadband to rural areas across the Counties. During the year we have let a separate contract to cover the moors in Devon and Somerset with satellite-based technology. Work continues on Phase 2 of the Broadband contract, with further rural coverage to be commenced with another tender in 2016/2017.

Underpinning the County Council Plan and vision have been a number of key Cabinet reports and decisions about both the current and future provision of key services for the Authority and the community. Cabinet receives regular reports on performance, on finance and the Medium Term Financial Plan and on positive progress being made in response to the Peer Review and on the Core Council programme. In addition, by way of example, Cabinet has reviewed and approved:-

- The closure of the South West One contract a year early, with a number of support services returning to the County Council by November 2016;
- The Authority relinquishing its ownership of PLUSS and PLUSS converting to a Community Interest Company;
- Progress on the Children and Young Plan and the Nine Priority Action Plan agreed in response to previous OFSTED inspections of the service;
- Support services for Education (SSE) and the working up of options to be presented to Cabinet in 2017;
- Approved an Open Framework for Learning Disabilities and the use of this approach to commission Learning Disability services in the future.

The Customer Access and Shared Assets [CASA] Project is a continuing 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 the Authority's community development work. The first hub in Glastonbury is due to open in the summer 2016 and is forecasted to save £1.7m over 25 years. In addition Hubs in Williton, Bridgwater, Yeovil, Shepton Mallet and Taunton are currently being explored.

Cabinet and Full Council papers confirm that the overall financial position for the Authority remains extremely challenging with the prospect of continuing declining central government funding until Revenue Support Grant ceases coupled with ever increasing demographic and statutory demands upon the Authority's services. A reduction of 32.7% of Revenue Support Grant for 2016/2017 has meant increasing difficult decisions have had to be made in order to balance the budget at February's Council meeting. Two main budgetary pressures have had to be accommodated, namely the National Living Wage and the Children's Social Care recovery plan, and pressures requiring funding totalled £10m. Impact Assessments were prepared and reviewed by subject matter experts for all necessary savings options.

Staff have been kept informed in a very transparent manner by frequent Core Brief updates and by regular Leader and Chief Executive meetings with staff. With the escalating costs of social care, particularly children's, the Chief Executive made an in-year decision to tell staff to cut any expenditure that was not statutory, already committed, or directly aligned to delivering future savings. As a result of this directive, the difficult in-year budgetary position has been substantially mitigated.

The Medium Term Financial Plan (MTFP) remains the mechanism used to assess, forecast and plan resources to maximise delivery of the County Council Plan. This process is now well established amongst officers and members alike. It is a continuous 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. In February 2015, the Cabinet and Full Council also approved the Revenue Strategy 2016/17-2020/2021 and Capital Strategy 2016/17–2018/2019.

The main aim of the MTFP is straightforward - to forecast the Authority'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 2016 democratic process. Cabinet reports updating the position were provided throughout the year, and again MTFP decisions were taken as soon as practical in order maximise the financial benefit, as had been endorsed by Cabinet and Full Council in November 2014, and were taken by officers, individual Cabinet members, Cabinet or Full Council as appropriate. Substantial background information on savings was made available on the public website as part of the MTFP paperwork.

Savings required to balance the budget were subjected to equalities specialist advice and assessment, and where necessary stakeholder and public consultation. A MTFP consultation update accompanied the paperwork, noting 8,000 responses to the various media employed.

The Cabinet recommended to Council a budget that was balanced and had adequate contingencies, although accepting that the overall risk profile is increased from previous years. Cabinet was also able to recommend a capital programme of £75.780 million of new starts, meeting the Authority's investment needs without the need for increasing external debt.

Grant Thornton, our external auditors, will continue to consider the Authority's MTFP plans for addressing the Authority's financial position as part of their work to reach a Value for Money (VFM) conclusion in their annual audits.

The Authority continues to report performance of the Council quarterly to Cabinet through our Performance Wheel, which is also considered at 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 Authority 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.

The Authority's Performance Management Framework was updated in September 2015 and a communications strategy ensured that it was part of the both Core Brief and Our Somerset. A training module is available through the Learning Centre and this and the guidance sets out what is expected at officer and individual management levels

Guidance has been published on "Balanced Scorecards" and now all Directors have a scorecard in place.

(All the documents and decisions referred to in this response are publicised on our website, and formal decisions taken can be found on the 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 Somerset County Council. The Consultation Manager acts as a Subject Matter Expert providing advice and support to all services on effective consultation and techniques in particular making use of our INOVEM consultation software. In this capacity he also oversees all consultations 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 total of 54 consultations and surveys have been undertaken over the last 12 months interacting with almost 7,000 people on services such as Bus Subsidies, Public Health, Children's, Adults, and Libraries Learning Listening and Changing . 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 Authority 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, the Fire Service and more recently Police) the 'Somerset Intelligence' and 'Inform Somerset' websites have been developed – both important tools in improving accountability. These sites contain a wealth of data and information about Somerset, its residents, and a wide range of council services. In 2015 the number of visits to the Somerset Intelligence site increased by 41% with the number of page views increasing by 32% to just over 79,000. In addition the number of visits to INFORM Somerset increased by 5% in 2015. The most popular page was the Community Profiles and the popular page the Census Demographics.

During 2015/16 work continued on establishing the new Business Intelligence Function for the Authority. This Unit brings a renewed focus to evidence based commissioning, using data and intelligence to drive change and improvement as well as increase public accountability. Reports on Digital Exclusion and Total Transport are two good examples of the insight to come from the team. In addition this year saw the publishing of 'It's a Fact' posters to raise the profile of key data across the organisation alongside our successful SINEPOST newsletter which is much appreciated my Members, Commissioners, Officers, Directors and Partners alike. The Team also ensure the Authority remains compliant with the production of all statutory data returns to Government. Last year SCC submitted all returns in the prescribed format, on time.

Your Somerset, the council newspaper continues to be delivered to all homes in Somerset on a quarterly basis. Content highlights service developments and raises awareness of the Council offer to encouraging uptake. Where possible, Your Somerset also highlights key consultations.

Large-scale public engagement has taken place for the last three years under the banner of Listening, Learning Changing, and this continues in 2016/17. Through a mixture of face-to-face events, online presence and a Your Somerset survey, Listening, Learning Changing seeks to engage the public and seek views on issues to help inform budget setting process and decisions. Feedback is sought on the Authority's priorities and key questions around potential budget decisions (e.g. cost recovery on certain services, Council Tax and ways of working such as shared buildings). The events are also used to share information about the services provided by the Council, answer questions and discuss issues relating to its services and to signpost people to further information. Last year around 4,400 people were engaged through Listening, Learning Changing. The role of this engagement is to supplement the more detailed, issue-specific consultations and to give a broad picture of residents' views on the budget and other key issues.

The Freedom of Information (FOI) team responds to request for information on behalf of the Authority, logging requests, seeking information from services, and sending back responses. The team works with a principle of transparency within the constraints of relevant legislation which can restrict the information that can be shared. Requests tend to be received from businesses, the media and member of the public and can range from straight forward requests for immediately shareable information, to requests for full file release requiring considerable time to collate and then apply any third party redactions. In 2015/16 there were approximately 1,200 requests for information.

The Webteam seeks feedback on all of the Authority's online content. Feedback forms are provided on every service page and to make it easy for people give their views and comments. For major projects, e.g. Somerset Choices, relevant service users and staff are involved in development and user testing to make sure it meets their needs.

To ensure effective dialogue with service users the Authority has implemented a new Customer Feedback and Freedom of Information Request system named Icasework. The system was launched in September 2015 and received much praise. The system allows the Authority to 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. The Customer Experience Team have worked hard this year alongside service to tackling complaints at the earliest stage to prevent them becoming costly, drawn out and complex for all. In 2015 601 complaints were received of which only 10 went to Stage 2 and 8 to LGO full investigation where 4 were upheld. This is a considerable improvement on the previous year where the Authority received 464 complaints of which 12 went to Stage 2, 24 to the LGO for investigation where 17 were upheld. 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. 2015 also saw the establishment of an LGO review panel to ensure the Authority learns from the outcomes of any LGO reports. The first Panel met at the end of March and will be chaired by the Director of Customers & Communities.

The Authority continues to establish strong links with the Voluntary, Community and Social Enterprise sector [VCSE] to ensure that the work the Authority is doing is having the desired effect within all of Somerset's communities. Over the last year Commissioners and procurement have worked to implement the Social Value Policy approved by Cabinet at the tail end of the last year. In addition, funds have been awarded from the newly created £1million Social Enterprise Fund with the Somerset Community Foundation. The first loan was given in September 2015 of £25,000 to the Taunton Athletics Club and £20,000 to We're Eco who recycles waste wood and offers work experience to disadvantaged and vulnerable members of Somerset Communities.

The new Strategic Forum with the VCSE continues to strengthen, holding four meetings this year as well as partners investing in additional capacity with the appointment of a new VCSE Strategic Engagement Adviser. 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 and to enable an exchange of information and views for the benefit of the people of Somerset. This year saw the emergence of a new SCC Voluntary sector webpage which was established to improve communication and awareness among key partners and the sector. During 2015/16 the Authority also commissioned the new Somerset Volunteer Service which will be provided by Somerset You Can Do from 1st April 2016. This contract will continue to build and engage with Communities to tap into valuable volunteering resource to support and enhance SCC service delivery. The opportunity to recognise, celebrate and promote their work was also highlighted in the Somerset Star Awards and Volunteers Week. Work with Communities also continued with the establishment of the new Care Act Reaching Out Fund looking at grass roots initiatives to support Adults and Health.

In terms of communications to the staff, a number of channels are regularly used to ensure that they are fully engaged in what the Authority 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 Authority 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 the Authority's staff and to remind them of how they are expected to act. In 2015/16, the Authority had articles on our Retention Allowance, E-appraisals, our Active Directory, decision-making, meta compliance policies, 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. The Authority have also held our Staff Awards in 2015/2016 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 Authority 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 Authority'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;

- financial requirements as set out Financial Regulations for entering into partnerships; and
- a partnership register which is updated annually.

The Authority's 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 Authority 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 the Authority 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 launched 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. This is now being extended to cover children's services.

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 the Authority have opened up its 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 Authority'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 scheme of delegation. The Constitution clarifies the relationship between and responsibilities of members and officers. The Authority continues to ensure that the governance content on the Council's website is up to date and relevant. A Members Portal has been created whereby members can access all relevant information to their role on line through access to a private section of the website. There is also governance guidance on the Authority's intranet which is available for officers relating to decision making, risk management, impact assessments and member development.

The Constitution is subject to annual review and regular updating through the Constitution Committee and Full Council in May 2016. In addition the Authority reviews its key strategies and business processes to ensure they remain fit for purpose e.g. the Council's Financial Regulations, Contract Standing Orders and/or the Risk Management Strategy.

Part 2 of the Constitution includes a number of codes and protocols, mostly around members. The latest iteration of the Constitution now includes a specific Appendix entitled Tell the Local Councillor, which sets out the requirements that Councillors must be informed at the earliest stage about significant County Council events and issues affecting their electoral division and their constituents.

The Leader of Council keeps the Authority's Cabinet arrangements under constant review, leading to formal decisions to make changes as and when necessary to meet business needs and/or respond to any changes in legislation or local requirements. In the last 12 months significant work has been carried out to review, refresh and improve decision making report templates and guidance. This has simplified the requirements of report authors through a reduction in the number of templates and revised contents with the aim of ensuring consistent compliance with the requirements across the Authority.

The Impact Assessment process which is a key part of the decision-making requirements has also been reviewed and refreshed. This has brought the Authority's arrangements into line with best practice and has brought a new focus to ensuring that the Council meets its statutory equalities' requirements.

All strategically important transformation and improvement activity that the Authority undertakes comes under the Core Council Programme Activity is monitored through change governance (the Core Council Programme Delivery Group and the Core Council Board which have clear Terms of Reference. The roles and responsibilities of key officers, such as the Senior Responsible Officers, Subject Matter Experts, Programme Managers, Change Advisors and Benefits Manager are signed off and well established now. The Programme Management Office maintains a decisions log and issues register, in addition to a suite of tools and training package that supports delivery.

This process ensures that all such activities are managed with strong project and programme management throughout (based on Prince 2 and Managing Successful Programmes 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 2015/16 the Business Change Service built on its already robust methodology, with the rollout of a Business Case approach (based on the 5 case CIPFA model). Each programme/project is now self-assessing against this model and where there are gaps, developing a business case in order to monitor costs against benefits to assure the on-going business justification of each programme/project and to ensure that it represents value for money.

This is in addition to the already well-defined detailed cost modelling approach that ensures that the total cost of delivering the Core Council Programme is understood to inform decision making and return on investment. The service has also introduced a Cumulative Impacts Group (and Director Steering Group) to determine the overall wider organisational impacts of change work on SCC to inform strategic decisions (particularly regarding risk) and future business cases

The Core Council Programme reports regularly to Cabinet at the same time as the Cabinet reviews key performance indicators, together with reviewing its budget position and projections. This approach is supplemented by the Senior Leadership Team collectively reviewing performance, budgetary, risk management, human resources and transformation performance and agreeing any necessary mitigations. Individual SLT Directors within their own service areas control income and expenditure against their cash-limited budget and monitor their service delivery and financial performance targets. They take any action necessary to avoid exceeding their financial allocation; this may, in exceptional circumstances, include the seeking of additional budget allocations.

The Authority reviews its 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 April 2016 confirmed that during the financial year 2015/16 the Authority complied with all these requirements, with a finance function that was resourced to be fit for purpose and professionally qualified and suitably experienced.

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: -

- Promotes and maintains high standards of conduct by elected members and co-opted members
- Gives advice and ensures that training is provided to elected members and co-opted members, the Cabinet and other member bodies on propriety issues,
- assists elected members and co-opted members to observe the Authority's code of conduct
- Investigates as necessary complaints referred to it by the Monitoring Officer that a member may have breached the Code of Conduct

The Standards Committee continues to keep under review the processes and procedures relating to the conduct of members and the investigation of complaints against members. It also reviews key officer conduct policies. 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.

The Audit Committee continues to review and endorse the content of the annual audit plans. The Committee monitors the delivery of these plans and any additional audit work undertaken during the year; it also reviews the internal auditor's annual report and the external auditor's statutory management letters, and makes recommendations for appropriate further action. Throughout the financial year, the Committee has undertaken a review of several partial internal audits on Authority services and progress with the management actions. In addition, the Committee considers the outcomes of any fraud investigations and the action taken. The Committee receives and approves the formal annual Statement of Accounts and considers matters arising from the Accounts Audit.

A Corporate Governance Board involving key officers from all areas of governance and chaired by the Section 151 Officer, (with its own and recently revised 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 the Authority has, and follows, an effective governance framework which is in line with the Authority's vision. In particular the group, together with the Strategic Risk Management Group, ensures that key elements of the Authority'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 the Authority includes risk management in the Authority's 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. Improvements to the Whistleblowing Policy have recently been agreed by the Standards Committee to ensure that the policy complies with the requirements of the legislation and best practice and to make it easier to use. This has been accompanied by further publicity within the Authority.

All new staff are made aware of the Standards of Conduct, and these are 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.

The Authority's HR policies are reviewed through its HR Policy Committee and the Committee is also responsible for approving the annual pay policy statement. The Committee is responsible for employee relations and it continues to support a forum for consultation with trade union representatives and senior officers.

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 Authority:
- ensures that its constitutional arrangements provide for effective Cabinet and Authority 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 Authority's Scrutiny Committees perform all of the statutory roles required of them
- publicises widely forthcoming agenda items, take as many of its decisions in public as possible and how Somerset's communities can participate in its democratic arrangements.

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

The Authority'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 Authority’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 Authority. The new arrangements also provide for additional member capacity towards supporting the Adults Transformation programme and health & social care integration priorities.

The Authority is also scrutinised through a number of independent regulatory and inspection bodies. The Authority’s 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. The Authority’s 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 Authority. They are also required to comment on the Authority’s 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 Authority 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 2015/2016. 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 the Risk Management Policy and the revision of the Strategy. The Cabinet, as a result of a recommendation by senior management, has the overall responsibility to approve the Authority’s risk-management strategy and policy statement, and to make sure all our staff are aware of it and comply. This remains under annual review to ensure it is still fit for purpose.

The Senior Leadership Team reviews its key risks regularly and any issues are escalated to Cabinet as necessary. Quarterly risk management assurance is reported to Cabinet, Cabinet & SLT, Scrutiny Committee(s) and the Audit Committee. Through the use of the dedicated JCAD system, the Authority has 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 continues to be rolled out across the Authority.

The Authority has 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 very senior officers as “risk owners”, detailed mitigating actions to minimise the impact of each risk and regular reporting back to the Audit Committee and Senior Leadership Team on the Authority’s progress. The Authority has previously benchmarked our risk management through the Association of Local Authority Risk Management (ALARM) and continue to undertake internal benchmarking using ALARM / CIPFA standards.
Risk Management training was provided via five workshops in June 2015, facilitated by Strategic Risk professionals from Zurich Municipal. The target audience was directors and their strategic & service managers. A targeted Members training session was also held.

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 Authority 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, the Authority has previously centralised its training budgets, to be directed by Human Resources and Organisational Development against the Authority’s key training objectives.

The Authority has its own electronic Learning Centre for all staff, 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. The new Members Portal has also utilised the Learning Centre to provide e-learning material for elected members. Work has also been undertaken to use the Learning Centre to deliver staff e-appraisals – using the system to record and progress staff line management appraisals and holding the outcomes.

The Peer Review noted how satisfied frontline staff were with the training and development offered to them.

During 2015/2016 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.

The Authority has 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 the 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.

Internal communications through Core Brief and Our 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 Authority has joined a consortium 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 and bespoke training for issues facing south-west authorities. This is further supplemented by an SCC annual programme of development activity for elected members.

The Member Development Panel continue to inform the influence the approach to developing the capacity and capability of elected members. This has included supporting flexible ways of working for elected members. The Authority has also supported elected members with specific local initiatives such as the Small Improvements Programme and the Health & Well-Being Scheme which enable members to submit locally developed schemes. The Authority continues to strive to deliver the objective of achieving the Member Development Charter by the end of 2016/17 as an accreditation of the Authority's approach.

Review of effectiveness

The Authority has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the 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. Key governance officers, led by the Section 151 Officer, carried out the review for the 2015/16 statement. The review took into account:

- Internal Audit's annual opinion report for 2015/16;
- officers' views on the effectiveness of the internal audit function through a review taken to Audit Committee annually
- external auditors' comments as part of their Statement of Accounts and Value For Money audits, including their positive assessment of internal audit;
- comments from other review agencies and inspectorates;
- individual assurance reviews carried out by each major service area along the lines of the Core Principles
- contributions from key officers on the Governance Board and across the Authority in their areas of specialism ;
- quarterly 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 the Authority's internal auditors, and this will come 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 the Authority's Charter, and brought a number of control issues to the attention of the members.

The Annual Report and Opinion gives "**Reasonable Assurance**" in respect of the internal control framework in place in 2015/2016. There have been an increased number of individual audits that have only achieved "Partial Assurance" in 2015/2016. However, this was expected because the Authority's Internal Audit Plan strategy specifically directs audit resources to areas that management consider are riskier in nature and require strengthening.

The internal auditor has commented that "although the number of partial opinion audits has increased and may cause some concern, the focus of the internal audit plan on high risk areas does provide an explanation of this increase. In line with this approach we have strengthened both the scrutiny and follow-up arrangements where a partial opinion has been given, to help ensure that recommendations are being implemented as agreed. In this regard I am assured by the challenge and support from the Audit Committee particularly during the 'call in' meetings where service managers are questioned on progress against their action plans, providing greater scrutiny in this important area. In addition, high priority recommendations are now all monitored by the risk team through JCAD and our follow-up work demonstrates that action is on-going to implement what has been agreed with services."

By way of contrast, the key financial control audits have all demonstrated Substantial or Reasonable Assurance, which has allowed officers to reduce audit requirements in these areas, and to target audit days where they are most required. Our Internal Audit Plan remains flexible and able to be responsive to emerging high risks across the County Council, with auditor comments that "requests during the year for opinion based reviews where high risks were identified, such as the Adults Deprivation of Liberty review. As a result of these requests changes to the plan were agreed to reflect the ever changing environment and challenges that local authority managers are facing", and "this demonstrates that the focus on high, new and emerging, risk areas is well established".

In terms of officer participation with the internal auditor's work, she has commented that "I am encouraged by the management response and readiness to accept and address the matters raised in audit reports" and "I believe that the Senior Management of Somerset County Council have worked hard to cooperate with the audit process."

The Peer Review in October 2014 set out a number of challenges and identifies areas where the Authority should look to improve, and was a significant governance item in the previous Annual Governance Statement. An Action Plan was drawn up, including who was responsible for monitoring progress. Much of the work is now completed and the Action Plan showing progress was presented to Cabinet in February 2016. It was agreed that any outstanding work was now moved into "business as usual" and the proposed monitoring arrangements for any ongoing improvement activity were also adopted. The Peer Review did comment that "the governance structure and arrangements in the council are felt to be sound".

As a result of this review of the effectiveness of the governance framework by key officers, the Authority has 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

The Authority proposes over the coming year to take steps to further enhance our governance arrangements, which will be captured in an Action Plan. We are satisfied that these steps will address any needs for improvement that have been identified in the Authority's review of effectiveness and officers will monitor their implementation and operation on a regular basis throughout the year. The officer Governance Board will regularly review progress on the Action Plan once approved.

However, we are aware that a number of significant governance issues remain to be resolved, and that the Authority has a number of critical projects ahead to deliver in addition to the vision set out in the County Plan and Devolution agenda.

The results of previous OFSTED inspections are well known and publicised. The more recent inspection did point to some progress in the Authority's safeguarding work, but sufficient progress had not been made to improve our overall assessment scores. A number of measures had been put in place to improve our performance in this area, such as an additional Scrutiny, an Improvement Board, a Cabinet post and additional funding into supporting children's social care.

Further demonstrable progress has been made in 2016/2017 against the 9 key priorities identified to meet OFSTED's requirements. A new Children and Young People's Plan (CYPP) 2016-2019 has been developed and will see us moving from the crisis management of the nine priorities plan that has been our main focus for the past year to continuous service improvement across all aspects of children services including education and health. This does not mean we will forget the nine priorities; instead they will be integrated into the wider CYPP agenda to ensure we continue with the Authority's progress with a central focus on improving the education, health and care outcomes for vulnerable children in Somerset. Managers will be working through the implications of the CYPP in April and planning is underway for multi-agency staff events in May and June. Regular communications are made to keep staff informed. Despite the progress, we acknowledged that this remains a key issue facing the Authority.

The importance of continued economic development across Somerset remains. The phased withdrawal of Revenue Support Grant and the switch to local retention of business rates only serves to add further financial pressures to the Authority, and emphasises the need to target in economic prosperity. Major projects across Somerset include Hinkley, which is an opportunity for significant change in Somerset, should the investment go ahead. The delivery of new nuclear and associated economic, infrastructure and community benefits remains a top priority for the Authority. Close work with the Local Enterprise Partnership will help us to jointly bring investment into Somerset with a range of large capital projects aimed at stimulating the economy and removing barriers. Connecting Devon and Somerset will ultimately deliver 95% broadband coverage to both counties, which is a pre-requisite to attracting more businesses, particularly into the more rural areas. The Authority is also supporting smaller projects with Enterprise Zones and administering grants to small business in the County.

The decision to terminate the South West One contract a year early was taken by Cabinet at its December 2015 meeting for strong commercial and governance reasons. In taking this decision, Cabinet was aware of the compressed timescale that would be required to return staff and back office functions back to the Authority's direct control by November 2016, and the need to deliver a replacement for SAP (the Authority's financial system). Resources and suitable IT expertise have been made available to achieve these objectives, and the projects are progressing well. It will be important to ensure a smooth transition back to the Authority during 2016/2017, in order to avoid causing disruption to the Authority as a whole.

Whilst the Authority have been able to set a balanced budget for 2016/2017, with adequate reserves and contingencies in place, members and officers alike acknowledge that the future financial position remains extremely difficult. Financial planning forecasts suggest that the next 2 years will be particularly critical as Revenue Support Grant disappears and the New Homes Bonus is reduced. There is uncertainty over how the Better Care Funding increases will be channelled and what new burdens might be attached. The Authority is also under significant financial pressure from demographic growth in social care, from additional statutory duties and from legislation such as the minimum wage. The role of the Core Council Programme and our commissioners to effect changes to the Authority's services will be critical as a result. The Authority remains a commissioning led organisation and will continue to seek the most effective, efficient and economical way of delivering services to our residents and visitors, regardless of provider. Commissioning Plans are already being drawn up, and commissioning leads are feeding options into the Medium Term Financial Plan. Building on the Authority's successful approach in setting the budget for 2016/2017, we are again starting the MTFP process immediately.

An independent report has estimated that the true economic impact of the Somerset floods of winter 2013-14 was up to £147.5 million. The Funding Options report outlines a range of options for a local mechanism to fund the Somerset Rivers Authority (SRA) and its work – which is in addition to, not instead of, existing flood risk management - from 2016/17 onwards. It was compiled by officers from the Department of Environment, Food and Rural Affairs (Defra), the Department for Communities and Local Government (DCLG) and the Somerset Rivers Authority.

The Somerset Rivers Authority's Board met in September 2015 to finalise its recommendation to Ministers for a preferred option. This was for the SRA to become a new statutory body with the power to raise income countywide from householders. In December 2015, the Department for Communities and Local Government gave the Authority and the five district councils the power to raise a shadow precept on council tax payers of up to 1.25%, for the purpose of funding the Somerset Rivers Authority in 2016/17.

Whilst this is very welcomed, there is still a significant journey ahead to set up the Somerset Rivers Authority as a new body to enhance our flood risk management. We note with interest the inclusion of the Somerset Rivers Authority in the future legislation programme as recently set out by central government.

At its September 2015 meeting, Cabinet approved that the Authority lets the majority of new contracts for care and/or support services to adults with Learning Disabilities through an Open Framework. At the time of this Statement, this process is progressing, and whatever recommendation is made, this will inevitably require careful governance to manage any necessary transition.

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

Pat Flaherty
Chief Executive
28th July 2016

John Osman
Leader of the Council
28th July 2016

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 the Authority 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.

The Authority has produced these accounts on the basis of CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, 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 the Authority classes 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 Authority 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;

- 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 Business Services Ltd 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 was 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 50.

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 Fair Value Measurement

The Authority measures some of its non-financial assets, such as surplus properties, and some of its financial instruments, such as equity shareholdings, at fair value at each reporting date. Fair valueis the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

a) in the principal market for the asset or liability, or

b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Authority's financial statements are categorised within the fair value hierarchy, as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Authority can access at the measurement date

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 – unobservable inputs for the asset or liability.

13 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 Authority 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.

14 Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and 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.

15 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; for administrative purposes; will be used during more than one financial year and meet the IAS16 recognition criteria. However, the Authority charges certain lower value items that have an expected life of more than one year to revenue in the year we buy them.

The types of assets the Authority includes 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

The Authority capitalises 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:

Group of assets	**Measure**	**Basis**
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	Highest and Best Use

If there is no market-based evidence of fair value because of the specialist nature of the asset, the Authority estimates 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. The Authority therefore transfers 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, the Authority considers 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 freehold land that has an unlimited useful life the Authority depreciates 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:

Type	**Useful life**
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, the Authority is 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 2015/16, the Authority has 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

The Authority recognises 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.

The Authority accounts 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.

16 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.

17 Heritage Assets

FRS102 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.

The Authority has 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. FRS102 does not apply to such assets.

Heritage assets (other than operational heritage assets) are measured at a valuation in line with FRS102. The standard states that the valuation may be made by any method that is appropriate and relevant. For the majority of the Authority's 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 the Authority's 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.

18 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 asses 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.

19 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, including PRUs (of which there are 86 within our boundary);
- Voluntary controlled (65 within our boundary);
- Voluntary aided (37 within our boundary); and
- Foundation (5 within our boundary).

The remaining type of state school, an Academy, (of which there are 68 within our boundary) receives its funding direct from Central Government.

Schools Non-Current Assets

When considering whether these schools are an ‘asset’ to the Authority and therefore require reporting within the Authority’s 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 LAAP Bulletin 101 – Accounting for Non-Current Assets used by LA Maintained Schools, the Authority is 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 15 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 14 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 the Authority 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 the Authority’s 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 the Authority’s 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 23 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 though the General Annual Grant) are recognised though the Authority’s accounts and charged against the relevant schools ISB allocation. Any unspent allocations are carried on the Authority's 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 Authority has considered whether the local Authority was able to control the operating and financial policies of a 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 the Authority's accounts (where material) the school's 'Unofficial Fund' year-end cash balance and in-year income and expenditure transactions.

20 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.

21 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 48

22 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.

23 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.

24 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.

25 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.

26 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 2015/16 (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.

The Authority 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 the Authority's 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	- Coprorate/surplus properties costs all to non-distributed costs (NDC) - Specific academy charges direct to relevant school area - R&M fees charged in line with actual spending - Remaining costs charged by number of properties within each service
Information and communication technology and central phones	- Based on software usage and remainder on weighted head count
Financial services	- Based on a percentage of time spent on direct services
Fleet management	- All based on the amount used by direct 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 to the service utilising the leased asset

27 Inventories

Inventories are measured at the lower of cost and net realisable value unless where inventories are not held with the expectation of generating profit. Where inventories are held for distribution at no charge or for a nominal charge they are measured at the lower of cost and current replacement cost.

28 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.

29 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 Authority.

Movement in Reserves Statement
For the years ended 31 March 2015 & 2016

	Note	Schools General Fund Balance £m	Other General Fund Balance £m	Earmarked Reserves £m	Capital Receipts Reserve £m	Capital Grants & Contributions Unapplied £m	Total Usable Reserves £m	Unusable Reserves £m	Total Authority Reserves £m
Balance as at 1 April 2014		**18.090**	**31.903**	**57.614**	**22.962**	**11.465**	**142.034**	**-11.309**	**130.725**
Movement in Reserves during 2014/15									
Surplus or deficit (-) on provision of services		-	-29.748	-	-	-	-29.748	-	-29.748
Other Comprehensive Income and Expenditure	14/50	-	-	-	-	-	-	-175.909	-175.909
Total Comprehensive Income and Expenditure		**-**	**-29.748**	**-**	**-**	**-**	**-29.748**	**-175.909**	**-205.657**
Adjustments between accounting basis & funding basis under regulations	7	-	28.189	-	0.825	0.770	29.784	-29.784	-
Net Increase/Decrease (-) before transfers to Earmarked Reserves		**-**	**-1.559**	**-**	**0.825**	**0.770**	**0.036**	**-205.693**	**-205.657**
Transfers to/from (-) Earmarked Reserves	8	5.335	-4.672	-0.663	-	-	-	-	-
Increase/Decrease (-) in Year		**5.335**	**-6.231**	**-0.663**	**0.825**	**0.770**	**0.036**	**-205.693**	**-205.657**
Balance as at 31 March 2015 carried forward		**23.425**	**25.672**	**56.951**	**23.787**	**12.235**	**142.070**	**-217.002**	**-74.932**
Movement in Reserves during 2015/16									
Surplus or deficit (-) on provision of services		-	-50.290	-	-	-	-50.290	-	-50.290
Other Comprehensive Income and Expenditure	14/50	-	-	-	-	-	-	109.491	109.491
Total Comprehensive Income and Expenditure		**-**	**-50.290**	**-**	**-**	**-**	**-50.290**	**109.491**	**59.201**
Adjustments between accounting basis & funding basis under regulations	7	-	28.247	-	-2.446	-2.847	22.954	-22.954	-
Net Increase/Decrease (-) before transfers to Earmarked Reserves		**-**	**-22.043**	**-**	**-2.446**	**-2.847**	**-27.336**	**86.537**	**59.201**
Transfers to/from (-) Earmarked Reserves	8	2.105	17.381	-19.486	-	-	-	-	-
Increase/Decrease (-) in Year		**2.105**	**-4.662**	**-19.486**	**-2.446**	**-2.847**	**-27.336**	**86.537**	**59.201**
Balance as at 31 March 2016		**25.530**	**21.010**	**37.465**	**21.341**	**9.388**	**114.734**	**-130.465**	**-15.731**

Balance Sheet as at 31 March 2016

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

31 March 2015 £millions	Balance Sheet as at 31st March 2016	31 March 2016 £millions	Notes
834.260	Property, Plant & Equipment	869.861	24
1.532	Heritage assets	1.934	31
1.434	Intangible Non-Current assets	1.373	25
13.001	Long term investments	10.181	33
24.527	Long term debtors	22.404	33
874.754	**Long term assets**	**905.753**	
187.137	Short term Investments	223.657	33
3.109	Assets held for sale	0.827	27
1.734	Inventories	7.348	35
60.941	Short term debtors	43.962	36
69.680	Cash and cash equivalents	39.131	43
322.601	**Current Assets**	**314.925**	
-74.311	Short term creditors	-74.181	37
-2.669	Revenue Grants/Contributions Receipts in Advance	-1.709	40
-29.854	Capital Grants/Contributions Receipts in Advance	-41.011	40
0.000	Long term borrowing repayable > I year	-0.018	33
-10.456	Provisions	-7.891	39
-9.504	Short term borrowing	-14.913	33
-2.450	Overdraft	-1.634	43
-129.244	**Current Liabilities**	**-141.357**	
-0.261	Provisions	-0.298	39
-333.489	Long term borrowing repayable > I year	-333.621	33
-788.266	Other long term liabilities	-733.081	38
-4.752	Revenue Grants/Contributions Receipts in Advance	-5.290	40
-16.275	Capital Grants/Contributions Receipts in Advance	-22.762	40
-1,143.043	**Long term liabilities**	**-1,095.052**	
-74.932	**Net Assets**	**-15.731**	
	Usable reserves		
23.425	General Fund - Schools	25.530	8/41
25.672	General Fund - Other	21.010	41
56.951	Earmarked Reserves - set aside for revenue purposes	37.465	8/41
23.787	Capital Receipts Reserve	21.341	41
12.235	Capital Grants/Contributions Unapplied Reserve	9.388	41
142.070		**114.734**	
	Unusable reserves		
174.071	Revaluation Reserve	186.655	42
338.193	Capital Adjustment Account	359.120	42
18.333	Deferred Capital Receipts	17.446	42
-742.572	Pensions Reserve	-688.337	42
-8.998	Accumulated Compensated Absences Adjustment Account	-8.879	42
3.971	Collection Fund Adjustment Account	3.530	
-217.002		**-130.465**	
-74.932	**Total Reserves**	**-15.731**	

K B Nacey

Kevin Nacey CPFA, Director – Finance and Performance
28 July 2016

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'.

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 2015			Comprehensive Income and Expenditure	31 March 2016			
£millions Expenditure	£millions Income	£millions Net	Statement for the year ended 31 March 2015	£millions Expenditure	£millions Income	£millions Net	Notes
			Continuing Operations				
4.977	-2.098	2.879	Central services to the public	4.666	-1.733	2.933	9
16.137	-2.165	13.972	Cultural and related services	18.681	-2.035	16.646	9
-	-	-	Library book stock recognition (Material Item)	-6.041	-	-6.041	4
51.057	-22.414	28.643	Environmental and regulatory services	55.361	-21.006	34.355	9
28.574	-21.858	6.716	Planning services	38.246	-34.528	3.718	9
362.895	-257.379	105.516	Education and children's services	379.074	-263.067	116.007	9
61.273	-7.613	53.660	Highways and transport services	61.465	-9.243	52.222	9
6.681	-0.199	6.482	Housing services	6.301	-0.061	6.240	9
218.204	-74.872	143.332	Adult social care	228.680	-79.110	149.570	9
16.337	-15.432	0.905	Public Health	19.014	-18.631	0.383	9
4.902	-0.010	4.892	Corporate and democratic core	4.073	-0.025	4.048	9
1.964	-	1.964	Non-distributed costs	-0.688	-	-0.688	9
773.001	**-404.040**	**368.961**	**Surplus (-) / Deficit on Continuing Operations**	**808.832**	**-429.439**	**379.393**	
16.187	-	16.187	Other operating expenditure	3.643	-	3.643	11
48.018	-3.057	44.961	Financing and investment income and expenditure	54.236	-9.503	44.733	12
-	-	-	Discontinued operations	2.016	-2.400	-0.384	6
-	-400.361	-400.361	Taxation and non-specific grant income	-	-377.095	-377.095	13
837.206	**-807.458**	**29.748**	**Surplus (-) or Deficit on Provision of Services**	**868.727**	**-818.437**	**50.290**	
		18.034	Surplus (-) or Deficit on revaluation of non-current assets			-20.372	14
		157.875	Remeasurement gains (-) / losses on pension assets/liabilities			-89.119	50
		175.909	**Other Comprehensive Income and Expenditure**			**-109.491**	
		205.657	**Total Comprehensive Income and Expenditure**			**-59.201**	

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.

2014/15 £millions		2015/16 £millions	Notes
29.748	Net surplus (-) or deficit on the provision of services	50.290	
-82.288	Adjustments to net surplus or deficit on the provision of services for non cash movements	-103.445	44
85.277	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	86.003	44
32.737	Net cash flows from Operating Activities	**32.848**	44
23.805	Investing Activities	1.568	45
9.104	Financing Activities	-4.683	46
65.646	**Net increase (-) or decrease in cash and cash equivalents**	**29.733**	
132.876	**Cash and cash equivalents at the beginning of the reporting period**	**67.230**	
67.230	**Cash and cash equivalents at the end of the reporting period**	**37.497**	43

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: Accounting Standards That Have Been Issued but Have Not Yet Been Adopted

The Authority has yet to adopt the following accounting standards:

Amendments to IAS 19 Employee Benefits (Defined Benefit Plans: Employee Contributions)

The objective of this amendment was to clarify the requirements of paragraph 93 of IAS19.

Amendment to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The objective of this amendment was to clarify the acceptable methods of depreciation and amortisation for Property, plant and equipment and Intangible assets.

Amendments to IFRS 11 Joint Arrangements (Accounting for Acquisitions of Interests in Joint Operations)

The objective of these amendments was to provide guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions.

Amendment to IAS 1 Presentation of Financial Statements (Disclosure Initiative)

The objective of this initiative was to explore opportunities to see how those applying IFRS can improve and simplify disclosures within existing disclosure requirements. An example of some of the changes that will apply in the Authority's 2016/17 accounts are:

- Changes to the format of the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and the introduction of the new Expenditure and Funding Analysis

- Changes to the format of the Pension Fund Account and the Net Assets Statement.

Annual Improvements to International Financial Reporting Standards (IFRSs) 2010 – 2012 Cycle and 2012 – 2014 Cycle

The International Accounting Standards Boards (IASB) annual improvements project provides a streamlined process for dealing efficiently with a collection of amendments to IFRSs. The primary objective of the process is to enhance the quality of standards, by amending existing IFRSs to clarify guidance and wording, or to correct for relatively minor unintended consequences, conflicts or oversights. Amendments are made through the annual improvements process when the amendment is considered non-urgent but necessary.

The Authority anticipates that none of these amendments or improvements will have a material impact on the Authority's accounts when they are applied prospectively from 1st April 2016.

Note 2: Critical Judgements in Applying Accounting Policies

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

The critical judgements made in 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 the Authority's numismatic, metalwork and artwork collections have an indefinite life and therefore depreciation will not be applied to these heritage assets held by the Authority. 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;

- Where the Authority has no evidence of formal arrangements with the legal owners of the property and land being used for the maintained schools in Somerset the Authority has assumed that no substantive rights have been passed to the Authority and therefore we do not recognise those property and land assets on the Authority's Balance Sheet;

- In 2015/16 the Better Care Fund was established by the Government to provide funds to local areas to support the integration of health and social care and to seek to achieve the National Conditions and Local Objectives. It is a requirement of the Better Care Fund that NHS Somerset Clinical Commissioning Group and Somerset County Council establish a pooled fund for this purpose, which was achieved in 2015/16 through a signed agreement under Section 75 of the National Health Service Act 2006. Under this Section 75 agreement there are three funds hosted by whichever body undertook the contracting arrangements. Having assessed the arrangement the Authority has determined that Funds 2 and 3 are hosted by ourselves, with Fund 1 being hosted by the Clinical Commissioning Group. Details of how this assessment has affected the transactions the Authority reports in its accounts can be found in Note 16 (page 76)

- The rules on how the Authority estimates the Fair Value (FV) of the Authority's surplus assets changed during 2015/16, with the adoption of IFRS13 Fair Value. The new requirement for us to consider the value of our surplus assets at their 'highest and best use' has resulted in a valuation technique comprising of three input levels that indicate the degree of observable and unobservable inputs used to estimate their FV. The amount of estimation varies depending on the level identified by the Authority's valuation experts. Further detail on the fair value of the Authority's surplus assets can be found in Note 28 (page 92).

- The Authority have reviewed its relationships with other entities and have concluded that we only have PLUSS Ltd and Futures for Somerset which would fall under the Group Accounts criteria;

- During 2015/16, the Authority received significant Growth Deal funding from the Government's Local Growth Fund. The funding had been awarded to the Heart of the South West Local Enterprise Partnership (HoSW LEP) and was payable to ourselves as the accountable body for the Local Growth Deal. During the Authority's Group Accounts review, it was concluded that the HoSW LEP entity did not fall under the Authority's control but that the risk of grant claw-back for the Growth Deal funding lay with us. The

Growth Deal funding and subsequent cash balance have been recognised in the Authority's accounts this year, as the Authority believes the risks associated with the funding creates a substantive right over the funding for the Authority irrespective of the control environment surrounding the LEP entity. HoSW LEP funding received during 2015/16 where other HoSW LEP partners hold the return obligations have not been recognised in the Authority's accounts.

- 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 30 (page 97) provides further detail;

- The Authority has also reviewed its 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 3: Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by Authority 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 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Depreciation	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.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge would increase by approximately £5.610 million for every year that useful lives had to be reduced.
PPE – Land & Buildings	Land & Buildings are carried in the balance sheet using different measurements bases as specified in the accounting policies on page 43. Where the measurement basis is not Historic Cost the Fair Value of the asset is estimated. The Authority is 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 £4.9m and subsequent depreciation would increase by £0.113m
Provisions	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. The Authority has also recognised a provision for Non-Domestic Rate (NDR) appeals of £1.795m as result of the localisation of business rates.	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 £57,000. 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 £179,500.

Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. The Authority instructs 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 £26.697 million (see the sensitivity analysis on page 131 for other potential movements to the pensions liability as a result of changes in actuarial assumptions)
Accruals	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.
Doubtful Debt Impairment	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 £388,678.11.	If our assumptions are incorrect by 10% the increase or decrease in our impairment would be approximately £38,867.81.
Employee benefit accrual	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. Assumptions within the accrual 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. The SCC staff accrual has a few assumptions: 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 the Authority considers any significant staff changes in service areas. Any material changes we will redo the sample. For 2015/16 there were no major changes. 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.	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. The accrual may be too high/low for the movement in the percentage of teachers taking up another position differs. 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. 3) SAP's limitation on Payroll reporting means the Authority 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.
Accounting for Schools	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 the Authority has 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.

Academies	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.
PFI & Similar Arrangements	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 £6,990 contingent rent and an additional £16,787 of service costs being charged in the Authority's accounts.
Fair Value Measurement	When the fair values of financial assets and financial liabilities cannot be measured based on quoted prices in active markets (ie Level 1 inputs), their fair value is measured using valuation techniques (eg quoted prices for similar assets or liabilities in active markets or on an investment basis). Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the Authority's assets and liabilities. Where Level 1 inputs are not available, the Authority employs relevant experts to identify the most appropriate valuation techniques to determine fair value. Information about the valuation techniques and inputs used in determining the fair value of the Authority's assets and liabilities is disclosed in note 33 on page 103.	The Authority uses an investment approach based on a derived market yields to measure the fair value of some of its surplus properties. The significant unobservable inputs used in the fair value measurement include management assumptions regarding rent growth, occupancy levels, bad debt levels, tenant covenant strength, etc Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value. Some of the key variables are described further in note 28 on page 92.

Note 4: Material Item of Income or Expense

During 2015/16, an internal review of the Authority's accounting processes identified an issue with the purchase of inventory (stock) in our accounts. When an item of expense meets the definition of inventory under the Code, the Authority is required to carry the inventory in its Balance Sheet at the lower of cost and current replacement cost. The Authority's review identified the purchase of library book stock as being non-compliant with this requirement, as the expenditure was being expensed through the Income & Expenditure account in the year of purchase.

The Authority used the information contained within our Library Management System to identify an initial stock value of £6.041m. As this stock had in the past been expensed through the Income & Expenditure account, the contra to our initial stock recognition was a credit to the Library Service of the income and Expenditure account (as reduced expenditure).

Due to the material nature of this stock recognition for the Library Service the Authority has chosen to report this value separately in the Income & Expenditure account rather than show it as an in-year transaction on the Cultural and related services line.

Note 5: Events after the Balance Sheet Date

Two schools converted to academy status, one May 2016 and one June 2016. The impact of these conversions will reduce the 2016/17 Balance Sheet by £4.875m in respect to the assets transferring with them. Their reserves will also move with them which at this stage are estimated to be £0.212 million.

On 23 June the UK voted in a referendum to leave the European Union. At the time of publishing these Accounts the Authority has not identified any notable consequences that will impact on these financial statements. We will continue to monitor the effects of the referendum result on the Authority as the negotiation to withdraw progresses.

Note 6: Discontinued Operations

2014/15 Total Expenditure	2014/15 Turnover (Income)	2014/15 Surplus (-) or deficit	Discontinued operations	2015/16 Total Expenditure	2015/16 Turnover (Income)	2015/16 Surplus (-) or deficit
£millions	£millions	£millions		£millions	£millions	£millions
8.300	-6.237	2.063	Somerset Skills & Learning	2.016	-2.400	-0.384
8.300	**-6.237**	**2.063**	**Surplus (-) or deficit on trading activities**	**2.016**	**-2.400**	**-0.384**

Somerset Skills & Learning (SS&L) previously provided an extensive range of high quality learning opportunities, accessible to residents and businesses in Somerset and the surrounding areas.

SS&L became a community interest company in the year and the trading unit ceased operating from the 1st August 2015. The above disclosure shows the 2014/15 results as a trading unit for comparability purposes.

Note 7: Adjustments between Accounting Basis and Funding Basis under Regulation

Adjustments between accounting basis and funding basis under regulations for the year ended 31 March 2016	Usable Reserves General Fund - Schools & Other £millions	Capital Receipts Reserve £millions	Capital Grants & Contributions Unapplied £millions
Adjustments to Revenue Resources:			
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:			
Pension Costs (transferred to/(from) the Pensions Reserve)	34.884	0.000	0.000
Council Tax and NDR (transferred to/(from) the Collection Fund Adj Account)	0.441	0.000	0.000
Holiday Pay (transferred to/(from) the Accumulated Absence Adj Account)	-0.119	0.000	0.000
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adj Account)	11.182	0.000	82.318
Total Adjustments to Revenue Resources	**46.388**	**0.000**	**82.318**
Adjustments between Revenue and Capital Resources:			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	-3.707	3.707	0.000
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	0.022	-0.022	0.000
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	-5.924	0.000	0.000
Icelandic impairment (transfer from the Capital Adjustment Account)	0.051	0.000	0.000
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	-8.584	0.000	0.000
Total Adjustments between Revenue and Capital Resources	**-18.142**	**3.685**	**0.000**
Adjustments to Capital Resources:			
Use of the Capital Receipts Reserve to finance capital expenditure	0.000	-6.159	0.000
Application of capital grants to finance capital expenditure	0.000	0.000	-85.165
Cash payments in relation to deferred capital receipts	0.000	0.028	0.000
Total Adjustments to Capital Resources	**0.000**	**-6.131**	**-85.165**
Total Adjustments	**28.246**	**-2.446**	**-2.847**

Adjustments between accounting basis and funding basis under regulations for the year ended 31 March 2015	Usable Reserves		
	General Fund - Schools & Other	Capital Receipts Reserve	Capital Grants & Contributions Unapplied
	£millions	£millions	£millions
Adjustments to Revenue Resources:			
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:			
Pension Costs (transferred to/(from) the Pensions Reserve)	32.814	0.000	0.000
Council Tax and NDR (transferred to/(from) the Collection Fund Adj Account)	-0.721	0.000	0.000
Holiday Pay (transferred to/(from) the Accumulated Absence Adj Account)	1.131	0.000	0.000
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adj Account)	22.982	0.000	77.890
Total Adjustments to Revenue Resources	**56.206**	**0.000**	**77.890**
Adjustments between Revenue and Capital Resources:			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	-7.440	7.440	0.000
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	0.053	-0.053	0.000
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	-10.742	0.000	0.000
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	-9.888	0.000	0.000
Total Adjustments between Revenue and Capital Resources	**-28.017**	**7.387**	**0.000**
Adjustments to Capital Resources:			
Use of the Capital Receipts Reserve to finance capital expenditure	0.000	-6.602	0.000
Application of capital grants to finance capital expenditure	0.000	0.000	-77.120
Cash payments in relation to deferred capital receipts	0.000	0.040	0.000
Total Adjustments to Capital Resources	**0.000**	**-6.562**	**-77.120**
Total Adjustments	**28.189**	**0.825**	**0.770**

Note 8: 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 2015/16.

	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 £millions	Transfers Out 2015/16 £millions	Transfers In 2015/16 £millions	Net Movement 2015/16 £millions	Balance at 31 March 2016
General Fund:									
Operating Accounts	0.377	-0.107	1.528	1.421	1.798	-0.679	-	-0.679	1.119
Economic Development Fund	2.027	-0.103	0.010	-0.093	1.934	-0.791	-	-0.791	1.143
Reserves for capital purposes	7.717	-	3.629	3.629	11.346	-1.710	-	-1.710	9.636
Invest to Save Fund	0.480	-	-	-	0.480	-0.101	-	-0.101	0.379
CCN / PATS	0.294	-0.294	-	-0.294	-	-	-	-	-
Pensions Equalisation	0.256	-0.123	0.001	-0.122	0.134	-0.134	-	-0.134	-
Adult Social Care Capacity Planning Reserve	3.379	-1.789	-	-1.789	1.590	-1.337	-	-1.337	0.253
Carers Pooled Budget	0.063	-0.024	-	-0.024	0.039	-	0.020	0.020	0.059
UC Equalisation Reserve	3.033	-0.257	1.155	0.898	3.931	-2.766	-	-2.766	1.165
Supply Mutual Fund Reserve	0.458	-	0.189	0.189	0.647	-0.101	-	-0.101	0.546
Legal Services - schools earmarked	0.095	-	0.022	0.022	0.117	-0.117	0.018	-0.099	0.018
LATS Earmarked Reserve	0.146	-0.020	-	-0.020	0.126	-	-	-	0.126
Hinkley Project	0.212	-0.106	-	-0.106	0.106	-0.083	-	-0.083	0.023
Elections	-	-	0.238	0.238	0.238	-	0.245	0.245	0.483
NIDR Funding	-	-	1.405	1.405	1.405	-2.404	0.999	-1.405	-
Highbridge Enterprise Center funding	-	-0.224	0.250	0.026	0.026	-0.026	-	-0.026	-
Somerset Rivers Authority	-	-	2.056	2.056	2.056	-0.640	-	-0.640	1.416
Flood Recovery & 20 year plan	0.484	-	12.384	12.384	12.868	-5.007	-	-5.007	7.861
Total Transport Pilot Fund	-	-	0.305	0.305	0.305	-0.014	-	-0.014	0.291
Sustainable Drainage Funding	-	-	0.128	0.128	0.128	-0.021	-	-0.021	0.107
Library renewal book fund	-	-	-	-	-	-	1.500	1.500	1.500
Somerset Drug & Alcohol	0.496	-0.227	0.091	-0.136	0.360	-0.015	-	-0.015	0.345
Superfast Broadband	0.168	-	0.439	0.439	0.607	-0.114	-	-0.114	0.493
Social Worker Trainees	0.116	-	-	-	0.116	-0.116	-	-0.116	-
Targeted Youth	0.012	-	-	-	0.012	-	-	-	0.012
Adoption Reform Grant	-	-	0.824	0.824	0.824	-0.824	-	-0.824	-
Refuse & Recycling Contract	0.213	-0.213	-	-0.213	-	-	-	-	-
SEN reform grant	-	-	-	-	-	-0.367	0.932	0.565	0.565
S106 funds	-	-	-	-	-	-	0.145	0.145	0.145
SAPHTO Funds	-	-	-	-	-	-	0.032	0.032	0.032
S31 Grants	-	-	-	-	-	-0.716	1.660	0.944	0.944
Local Enterprise Partnership (LEP)	0.235	-	0.001	0.001	0.236	-	0.414	0.414	0.650
Change Programme	3.069	-1.315	-	-1.315	1.754	-1.001	-	-1.001	0.753
SWP - WDA	0.442	-0.262	0.101	-0.161	0.281	-0.108	0.926	0.818	1.099
SWP - SCC	0.138	-0.138	-	-0.138	-	-	-	-	-
Environment Commuted Sums Reserve	1.487	-	0.264	0.264	1.751	-0.858	0.009	-0.849	0.902
School Improvement Board	0.750	-0.250	-	-0.250	0.500	-0.390	-	-0.390	0.110
Museums and Records Bequests	0.146	-0.146	-	-0.146	-	-	-	-	-
Insurance Fund Reserve	2.927	-	0.633	0.633	3.560	-	0.630	0.630	4.190
Youth Bank	0.041	-	0.010	0.010	0.051	-0.019	-	-0.019	0.032
Central Schools Budget - Compact	3.324	-1.052	0.759	-0.293	3.031	-2.282	-	-2.282	0.749
BSF Bridgwater Equaliation Reserve	1.741	-	0.811	0.811	2.552	-	1.145	1.145	3.697
Repairs and Maintenance Fund (inc BMIS)	0.635	-0.173	0.287	0.114	0.749	-2.025	-	-2.025	-1.276
Directorate Budget Carry Forwards	22.653	-28.983	7.623	-21.360	1.293	-11.721	8.326	-3.395	-2.102
Total excluding School Balances	57.614	-35.806	35.143	-0.663	56.951	-36.487	17.001	-19.486	37.465
Balances held by schools under a scheme of delegation	18.090	-20.225	25.560	5.335	23.425	-22.050	24.155	2.105	25.530
Total	**75.704**	**-56.031**	**60.703**	**4.672**	**80.376**	**-58.537**	**41.156**	**-17.381**	**62.995**

Note 9: Analysis of the Authority's spending on services

The Code says the Authority 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.

2014/15 Spending less income £millions		2015/16 Total spending £millions	Total income £millions	Spending less income £millions
	Central services to the public			
0.820	Registration of births, deaths and marriages	1.957	-1.178	0.779
1.161	Emergency planning	0.458	-0.136	0.322
-0.148	Local land charges	0.071	-0.162	-0.091
0.331	Grants (including citizens advice bureaus)	1.085	-	1.085
0.800	Coroner's court	0.842	-	0.842
-0.085	Other court services	0.253	-0.257	-0.004
2.879		**4.666**	**-1.733**	**2.933**
	Cultural and related services			
3.172	Culture and heritage	6.306	-0.428	5.878
1.503	Open spaces	2.012	-0.592	1.420
1.626	Recreation and sport	1.373	-	1.373
0.011	Tourism	0.030	-0.009	0.021
7.660	Library service	8.960	-1.006	7.954
13.972		**18.681**	**-2.035**	**16.646**
	Material items of income and expense			
-	Library book stock recognition	-6.041	-	-6.041
		-6.041	**-**	**-6.041**
	Environmental services			
0.191	Agricultural services	0.253	-0.477	-0.224
-	Coast protection	-	-	-
-1.055	Flood defence	4.743	-0.470	4.273
0.108	Community safety - safety services	0.287	-0.184	0.103
0.591	Community safety - crime reduction	0.616	-0.010	0.606
1.530	Regulatory services	2.429	-0.548	1.881
-0.902 *	Waste collection	18.657	-18.905	-0.248 *
19.341	Waste disposal	20.845	-0.366	20.479
8.839	Recycling	7.531	-0.046	7.485
28.643		**55.361**	**-21.006**	**34.355**
	Planning and development services			
1.231	Planning policy	1.622	-0.826	0.796
0.009	Environmental initiatives	0.085	-0.067	0.018
3.326	Economic development	13.462	-11.687	1.775
0.444	Development control	0.436	-0.223	0.213
0.220	Economic research	20.593	-21.162	-0.569
0.366	Business support	0.982	-0.563	0.419
1.120	Community development	1.066	-	1.066
6.716		**38.246**	**-34.528**	**3.718**
	Education services			
-0.261	Early Years	22.801	-21.404	1.397
9.902	Primary schools	153.938	-143.312	10.626
6.704	Secondary schools	53.138	-47.277	5.861
5.365	Special schools	36.793	-33.999	2.794
-0.519	Services to young people	5.844	-5.921	-0.077
17.684	Other school-related education functions	25.614	-7.348	18.266
38.875		**298.128**	**-259.261**	**38.867**
91.085		**409.041**	**-318.563**	**90.478**

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

Note 9 (continued)

2014/15 Spending less income £millions		Total spending £millions	2015/16 Total income £millions	Spending less income £millions
	Children's social care			
7.876	Childrens Centres	6.807	-0.238	6.569
34.418	Children looked after	40.648	-1.126	39.522
4.396	Family support services	6.532	-1.088	5.444
1.164	Youth justice	1.973	-0.742	1.231
17.427	Children and young people's safety	22.915	-0.354	22.561
0.013	Asylum seekers	0.078	-0.125	-0.047
1.347	Other children and family services	1.993	-0.133	1.860
66.641		**80.946**	**-3.806**	**77.140**
	Highways and transport services			
6.084	Transport, planning, policy and strategy	9.381	-2.319	7.062
1.758	Highways structural maintenance	2.050	-2.138	-0.088
19.424	Capital charges relating to construction	21.114	-0.139	20.975
6.787	Environment safety & routine maintenance	5.887	-0.208	5.679
4.210	Street lighting	4.362	-0.068	4.294
2.059	Managing traffic and road safety	2.040	-0.374	1.666
0.132	Parking	1.887	-1.816	0.071
11.867	Public transport	13.457	-2.129	11.328
1.339	Winter maintenance	1.287	-0.052	1.235
53.660		**61.465**	**-9.243**	**52.222**
	Housing services			
6.478	Supporting people	6.289	-0.061	6.228
0.004	Other housing	0.012	-	0.012
6.482		**6.301**	**-0.061**	**6.240**
	Adult social care			
12.126	Physical support - adults (18–64)	15.058	-5.018	10.040
52.552	Physical support - older people (65+)	85.326	-28.436	56.891
0.162	Sensory support - adults (18–64)	0.217	-0.025	0.193
0.703	Sensory support - older people (65+)	0.651	-0.074	0.578
0.049	Support with memory and cognition - adults (18–64)	0.695	-0.202	0.493
0.541	Support with memory and cognition - older people (65+)	3.648	-1.062	2.586
47.254	Learning disability support - adults (18–64)	73.742	-22.464	51.278
4.617	Learning disability support - older people (65+)	8.194	-2.496	5.698
1.343	Mental health support - adults (18–64)	1.809	-0.184	1.625
3.861	Mental health support - older people (65+)	5.147	-0.522	4.625
0.569	Social support: Support for carer	0.510	-0.204	0.306
1.540	Assistive equipment and technology	3.437	-1.656	1.781
13.935	Social care activities	25.740	-16.528	9.212
4.080	Commissioning and service delivery	4.506	-0.240	4.266
143.332		**228.680**	**-79.110**	**149.570**
	Public Health			
0.049	Sexual health	4.046	-4.016	0.030
-0.012	NHS check	0.585	-0.576	0.009
0.026	Health Protection	0.071	-0.070	0.001
0.026	Public health advice	0.396	-0.392	0.004
0.010	Child Measurement	0.181	-0.179	0.002
0.025	Obesity	0.633	-0.629	0.004
0.042	Physical activity	0.259	-0.258	0.001
0.519	Substance misuse	5.287	-4.988	0.299
0.034	Smoking	1.175	-1.180	-0.005
-0.026	Children 5-19	0.772	-0.784	-0.012
0.212	Miscellaneous	5.609	-5.559	0.050
0.905		**19.014**	**-18.631**	**0.383**
	Corporate and democratic core			
2.116	Democratic representation and management	2.094	-0.024	2.070
2.776	Corporate management	1.979	-0.001	1.978
4.892		**4.073**	**-0.025**	**4.048**
	Non-distributed costs			
1.964	(we cannot share between services)	-0.688	-	-0.688
368.961	**Total spending on services**	**808.832**	**-429.439**	**379.393**

Note 10: 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 services.

Service Income and Expenditure 2015/16

	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	79.913	7.217	3.821	10.486	84.145	185.582
Government grants	23.355	49.304	0.000	0.649	193.646	266.954
Total Income	**103.268**	**56.521**	**3.821**	**11.135**	**277.791**	**452.536**
Employee expenses	20.976	39.261	27.934	7.773	175.305	271.249
Other operating expenses	195.823	97.874	3.428	36.204	138.703	472.032
Support Service Recharges	7.981	19.575	5.929	1.330	3.520	38.335
Total operating expenses	**224.780**	**156.710**	**37.291**	**45.307**	**317.528**	**781.616**
Net cost of services	**121.512**	**100.189**	**33.470**	**34.172**	**39.737**	**329.080**

Service 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
Total Income	**90.810**	**55.581**	**4.355**	**9.808**	**284.245**	**444.799**
Employee expenses	17.298	32.240	28.797	7.439	180.616	266.390
Other operating expenses	181.903	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
Total operating expenses	**209.792**	**141.033**	**36.699**	**43.984**	**330.902**	**762.410**
Net cost of services	**118.982**	**85.452**	**32.344**	**34.176**	**46.657**	**317.611**

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

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

2014/15 £ millions	Reconciliation to Net Cost of Services in Comprehensive Income & Expenditure Statement	2015/16 £ millions
317.611	Cost of Service in Service Analysis	**329.080**
9.048	Add services not included in main analysis	-3.231
42.302	Add amounts not in management reports but included in I&E	53.544
368.961	**Net Cost of Services in Comprehensive Income & Expenditure Statement**	**379.393**

Reconciliation to Subjective Analysis

The reconciliation on the following page shows how the figures in the analysis of service 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.

2015/16

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	185.582	0.000	37.171 -	8.59	17.076	231.243	8.586	239.829
Surplus or deficit on associates and joint ventures	-	-	-	-	-	-	-	-
Interest and investment income	-	-	-	-	-	-	3.317	3.317
Income from council tax / NNDR	-	-	-	-	-	-	256.482	256.482
Government grants and contributions	266.954	-	-	-	4.162	271.116	120.613	391.729
Total Income	**452.536**	**0.000**	**37.171 -**	**8.586**	**21.238**	**502.359**	**388.998**	**891.357**
Employee expenses	271.249	1.552	16.393	-	19.810	309.004	-	309.004
Other service expenses	472.032	-4.783	0.000	-21.297	39.763	485.715	11.376	497.091
Support service recharges	38.335	-	-	-	-38.335	-	-	-
Depreciation, amortisation and impairment	-	-	87.033	-	-	87.033	0.000	87.033
Interest payments	-	-	-	-	-	-	44.876	44.876
Precepts & levies	-	-	-	-	-	-	0.804	0.804
Loss on revaluation of current assets held for sale	-	-	-	-	-	-	0.007	0.007
Gain or Loss on disposal of fixed assets	-	-	-	-	-	-	2.832	2.832
Total operating expenses	**781.616**	**-3.231**	**103.426**	**-21.297**	**21.238**	**881.752**	**59.895**	**941.647**
Surplus or deficit on the provision of services	**329.080**	**-3.231**	**66.255**	**-12.711**	**-**	**379.393**	**-329.103**	**50.290**

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	26.617	-	15.880	219.664	17.252	236.916
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
Total Income	**444.799**	**0.360**	**26.617**	**-**	**19.074**	**490.850**	**421.070**	**911.920**
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
Total operating expenses	**762.410**	**9.408**	**95.643**	**-26.724**	**19.074**	**859.811**	**81.857**	**941.668**
Surplus or deficit on the provision of services	**317.611**	**9.048**	**69.026**	**-26.724**	**-**	**368.961**	**-339.213**	**29.748**

Note 11: Other Operating Expenditure

2014/15 £millions		2015/16 £millions
12.138	(Gain)/losses on the disposal of non-current assets	2.832
3.256	Loss on the revaluation of current assets held for sale	0.007
	Levies:	
0.624	- Environment Agencies	0.636
0.112	- Devon and Severn IFCA	0.111
0.057	- Magistrates Courts	0.057
16.187		**3.643**

The loss on disposal of non-current assets during 2015/16 was largely due to writing out a VC school, in line with the Authority's accounting policy 19, and the cancellation of a long term lease with Somerset Care Ltd. These and other smaller losses were partially offset by a gain (£1.452m) recognised in the year from the sale of farm land.

Note 12: Financing and Investment Income and Expenditure

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

2014/15 £millions		2015/16 £millions
20.210	Interest payable and similar charges	19.763
24.831	Net pensions interest cost (on the defined liability)	25.112
-3.057	Interest receivable and similar income	-3.316
2.977	Deficit from trading activities (see note 15)	3.174
44.961		**44.733**

Note 13: Taxation and Non-Specific Grant Income

2014/15 £millions		2015/16 £millions
-190.676	Council Tax income	-194.112
-60.325	National Non-Domestic Rates	-62.370
-96.355	Non-ringfenced government grants	-74.957
-53.005	Capital grants and contributions	-45.656
-400.361		**-377.095**

Note 14: Surplus or deficit on revaluation of fixed assets

2014/15 £millions		2015/16 £millions
-23.178	Gains credited to the Revaluation Reserve	-25.824
41.212	Losses charged to the Revaluation Reserve	5.451
18.034		-20.373

Note 15: Trading Operations

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

2014/15 Total Expenditure £millions	2014/15 Turnover (Income) £millions	2014/15 Surplus (-) or deficit £millions	Trading unit	2015/16 Total Expenditure £millions	2015/16 Turnover (Income) £millions	2015/16 Surplus (-) or deficit £millions
1.896	-1.936	-0.040	Dillington House	1.984	-1.778	0.206
22.031	-21.077	0.954	Support Services for Education	22.238	-19.270	2.968
23.927	**-23.013**	**0.914**	**Surplus (-) or deficit on trading activities**	**24.222**	**-21.048**	**3.174**

The 2014/15 values shown on the face of the Comprehensive Income and Expenditure Account include Somerset Skills & Learning which ceased trading in 2015/16. The results for Somerset Skills & Learning can be found in Note 6– Discontinued Operations.

The following provides a brief description of each of the Authority's 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. The service offers facilities for conferences and meetings and is available for weddings and social events. Onsite accommodation is also available on a group and individual basis.

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

Note 16: Pooled Budgets

The Authority works 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 the Authority's accounts.

The **Integrated Community Equipment Service's** pooled budget operates under the Health Act 2006. The Authority uses 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:

2014/15 £millions	Integrated Community Equipment Service (previously known as the Joint Equipment Service)	2015/16 £millions
	Income from:	
-1.144	Adults and Health Service	-1.116
-0.355	Children and Learning Service	-0.321
-1.380	Somerset Clinical Commissioning Group (Including Continuing Healthcare Income)	-1.456
-1.098	Other Grant Income	-1.200
-	Other Grant Income	-
-3.977	Total income	-4.093
	Less the following spending:	
3.806	Equipment, delivery costs, minor work	4.244
0.084	Management and administration	0.093
3.890	Total spending	4.337
-0.087	**Overspending or underspending (-)**	**0.244**

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

2014/15 £millions	Learning Disabilities Service	2015/16 £millions
	Income from:	
-46.840	Adults and Health Service	-49.370
-0.383	Pensions Equalisation Reserve	-0.383
-16.812	Somerset Clinical Commissioning Group	-18.249
-7.786	Income from charges and grant income	-7.411
-71.821	Total income	-75.413
	Less the following spending:	
38.223	Purchasing (independent sector)	45.529
10.041	Residential services	9.899
15.688	Supported housing	13.111
6.138	Day services	7.163
3.767	Community teams	1.529
73.857	Total spending	77.231
2.036	**Overspending or underspending (-)**	**1.818**

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.

2014/15 £millions	Carers	2015/16 £millions
	Income from:	
-0.204	Adults and Health Service	-0.203
-0.203	Somerset Clinical Commissioning Group	-0.204
-0.063	Earmarked Reserve Drawdown	-0.039
	Other Grant Funding	-0.049
-0.470	Total income	-0.495
	Less the following spending:	
0.407	Universal Carers Support Service	0.407
0.024	Carers Support Worker Salary/Running Costs	0.029
0.431	Total spending	0.436
-0.039	**Overspending or underspending (-)**	**-0.059**

Another area where the Authority works with the Somerset Clinical Commissioning Group is the **Better Care Fund,** which was established by the Government in 2015/16 to provide funds to local areas to support the integration of health and social care and to seek to achieve the National Conditions and Local Objectives. It is a requirement of the Better Care Fund that NHS Somerset Clinical Commissioning Group and Somerset County Council establish a pooled fund for this purpose, which was achieved in 2015/16 through a signed agreement under Section 75 of the National Health Service Act 2006.

Under this Section 75 agreement there are three funds totalling £41.343m and hosted by whichever body undertook the contracting arrangements. These funds support the four schemes supported by the Better Care Fund namely Reablement, Person-centred care, Avoiding Admissions for Older People and Housing Adaptions.

This table shows the total actual expenditure incurred by the Better Care Fund in 2015/16, by Fund:

Somerset Better Care Fund	Fund 1 £millions	Fund 2 £millions	Fund 3 £millions	BCF Total
Scheme A				
Reablement & Other social care schemes	2.712	11.447	-	14.159
Scheme B				
Person-centered care	17.617	0.203	2.780	20.600
Scheme C				
Frail Older Persons Assessment Service (FOPAS)	3.088	-	-	3.088
Scheme D				
Housing Adaptions	-	-	2.105	2.105
Capital Expenditure	-	-	1.391	1.391
Total per Fund	23.417	11.650	6.276	41.343

Fund 1 is hosted by the Clinical Commissioning Group and totals £23.417m. The fund includes contributions from the CCG only, which have been paid to providers contracted to support the Reablement, Person-centred care and Avoiding Admissions for Older People schemes. The CCG paid Somerset Partnership NHS Foundation Trust £9.272m Taunton & Somerset NHS Foundation Trust £8.276m and Yeovil District Hospital NHS Foundation Trust £5.869m.The CCG controls this fund in its entirety and wholly owns any risk relating to this fund as per the Section 75 agreement.

In terms of accounting entries, all expenditure incurred as part of this fund is accounted for by the CCG.

Fund 2 is hosted by the Authority and totals £11.650m. This fund includes a small amount of funding, £203,500, which is the CCGs contribution to the Carers Pooled budget. The remaining fund is a contribution from the CCG paid to Somerset County Council for them to contract to support the Reablement scheme. The Authority controls this fund and wholly owns any risk relating to this fund as per the Section 75 agreement, therefore under IFRS 11 this fund is not classed as a joint arrangement.

In terms of accounting entries, the contribution incurred as part of this fund is accounted for within the CCG accounts, with the Authority accounting for this CCG contribution as income and the associated expenditure with providers for this fund.

Fund 3 is hosted by Somerset County Council and totals £6.276m. The fund includes contributions from the Authority only, which have been paid to providers contracted to support the Person-centred care and Housing Adaptions schemes. The Authority controls this fund in its entirety and wholly owns any risk relating to this fund as per the Section 75 agreement.

In terms of accounting entries, all expenditure incurred as part of this fund is accounted for by the Authority.

Note 17: Members’ Allowances

The allowances paid to the Authority’s Members during the year are shown below.

2014/15 £millions		2015/16 £millions
0.572	Basic Allowance	0.579
0.206	Special Responsibility Allowance	0.214
0.060	Travel and Subsistence Expenses	0.053
0.012	Payments to Co-optees	0.014
0.850		**0.860**

Note 18: Senior Officers' Remuneration

Under regulations, the Authority must show the number of the Authority's 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 2016

2014/15			2015/16	
Number of employees			Number of employees	
Schools	Non-schools	Employee pay bands	Schools	Non-schools
69	31	£50,000 to £54,999	75	33
40	13	£55,000 to £59,999	45	14
23	22	£60,000 to £64,999	22	26
16	6	£65,000 to £69,999	15	8
3	4	£70,000 to £74,999	8	6
4	2	£75,000 to £79,999	-	1
1	4	£80,000 to £84,999	4	1
3	1	£85,000 to £89,999	1	4
-	2	£90,000 to £94,999	3	2
-	3	£95,000 to £99,999	-	1
-	2	£100,000 to £104,999	-	4
-	1	£105,000 to £109,999	-	2
-	-	£110,000 to £114,999	-	-
-	1	£115,000 to £119,999	-	-
-	-	£120,000 to £124,999	-	1
-	-	£125,000 to £129,999	-	-
-	-	£130,000 to £134,999	-	1
-	-	£135,000 to £139,999	-	-
-	-	£140,000 to £144,999	-	-
-	-	£145,000 to £149,999	-	-
-	1	£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	-	-
-	-	£180,000 to £184,999	-	-

The following tables set out the salaries and wages the Authority's senior officers earned during 2014/15 and 2015/16. The Authority has 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 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 £
Chief Executive						
Patrick Flaherty	151,400	-	-	151,400	20,400	171,800
Executive Leadership Team - reporting to CEO						
- Group Director of Operations	102,400	-	-	102,400	13,800	116,200
Note 1						
- 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
Note 2						
- Lead Commissioner Children & Learning	280,400	-	-	280,400	800	281,200
Note 3						
- Lead Commissioner Economic & Community Infra	85,000	-	-	85,000	11,500	96,500
- Customers & Communities Director	65,600	-	-	65,600	8,900	74,500
Note 4						
Senior Leadership Team - reporting to ELT						
- 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
Note 5						
- Interim Operations Director Children and Families	91,200	-	-	91,200	8,900	100,100
Note 6						
- Learning & Achievement Operations Director	42,600	48,700	-	91,300	5,800	97,100
Note 7						
- Learning Disabilities Operations Director	85,000	-	-	85,000	11,500	96,500
- HR & OD	23,300	-	-	23,300	2,000	25,300
Note 8						
- Adults & Health Operations Director	86,900	-	-	86,900	11,800	98,700
Note 9						
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 2014 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 2014 to October 2014 only.
Note 9 – The Adults and Health Operations Director role was covered by two SCC staff during 2014/15

Table 3 – Actual salary and benefits paid for the financial year ended 31 March 2016

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 2015/16 £	Employer's pension contributions £	Total wages and benefits including pension contributions 2015/16 £
Chief Executive						
Patrick Flaherty	153,800	-	-	153,800	20,800	174,600
Executive Leadership Team - Reporting to CEO						
- Group Director of Operations	123,000	-	-	123,000	16,600	139,600
- Director of Public Health	107,900	-	300	108,200	15,300	123,500
- Director of Finance and Performance	102,500	-	-	102,500	13,800	116,300
- Director of Commercial & Business Services	102,500	-	-	102,500	13,800	116,300
- Director of Adult Social Services - *Note 1*						
-Officer 1	17,100	24,400	-	41,500	2,300	43,800
-Officer 2	168,500	-	-	168,500	-	168,500
-Officer 3	24,500	-		24,500	3,300	27,800
- Director of Children's Services	132,700	-	-	132,700	17,900	150,600
- Director of Economic & Community Infrastructure	99,900	-	-	99,900	13,500	113,400
- Director of Customers & Communities	87,100	-	-	87,100	11,800	98,900
Senior Leadership Team - Reporting to ELT						
- Director of Economic & Community Infrastructure Operations	102,500	-	-	102,500	13,800	116,300
- Deputy Director of Children's Services - Children & Families - *Note 2*	93,400	-	-	93,400	12,600	106,000
- Director of Learning Disabilities Operations	87,100	14,300	-	101,400	-	101,400
- Director of HR & OD - *Note 3*						
-Officer 1	13,900	27,200		41,100	-	41,100
-Officer 2	54,100			54,100	7,300	61,400
- Operations Director for Adults & Health	87,100	-	-	87,100	11,800	98,900
County Solicitor	64,400	-	-	64,400	8,700	73,100
Group Manager Community Governance / Monitoring Officer	64,400	-	-	64,400	8,700	73,100

Note 1- An SCC employee covered this role during April – June 15. The role was then covered by a Consultant during June 15 to January 16 then a permanent member of staff filled the position from January 16. The annualised salary for this post would have been £98,000.
Note 2- The Deputy Director Children's Services and Operations Director Children & Families roles are now covered by one post.
Note 3- Post covered by a member of staff acting up April – August 15. The permanent post was filled from August 2015. The annualised salary for this post would have been £87,000.

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	
	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15 £millions	2015/16 £millions
£0 - £20,000	25	22	132	125	157	147	1.029	0.803
£20,001 - £40,000	1	3	10	10	11	13	0.275	0.353
£40,001 - £60,000	-	-	1	3	1	3	0.049	0.149
£60,001 - £80,000	-	-	-	2	-	2	-	0.143
£80,001 - £180,000	-	-	-	2	-	2	-	0.240

Note 19: Termination Benefits

The Authority terminated the contracts of 167 employees in 2015/16, incurring liabilities of £1.688 million. This is analysed below between Local Authority staff and Teachers, and details any significant reasons for terminations.

Local Authority

The redundancy total includes; £1.305 million payable to 113 staff who took voluntary redundancy or early retirement. A further £0.135 million was paid to 22 staff who were given compulsory redundancy, of which 7 were due to a closure of a residential unit. The remaining redundancies were due to school and other restructures.

Teachers

Included in the above statement of £1.688 million, the Authority terminated the contracts of 32 teachers in 2015/16, incurring liabilities of £0.248 million. These terminations can be split between compulsory redundancies (3) and other termination reasons (29), and can be analysed as follows:

- Primary 21 Teachers
- Secondary 4 Teachers
- Special 1 Teacher
- Virtual/Non-School Specific 6 Teachers/Staff

Note 20: Fees for External Audit Services

The Authority is required to disclose the fees payable to our external auditors during the year. Their work includes the Authority's Statement of Accounts, the audit of grant claims and inspection of our processes. A summary of the amounts that we pay for this audit work is shown in the following table:

2014/15 £millions		2015/16 £millions
	Fees payable to auditors appointed under the Local Audit & Accountability Act 2014	
0.148	– Main audit	0.100
0.002	– Grant claims	0.005
-0.005	– Other audit costs *	0.008
0.145	**In year audit costs**	**0.113**
-0.015	Rebate from Audit commission for previous overcharge on audit fee	-
0.130		**0.113**

* Note; additional audit works were carried out during 2015/16 due to an objection from a member of the public with regards to the 2014/15 Statement of Accounts. The final cost was unknown at 31/03/2016, therefore the £7,998.00 will be charged in 2016/17.

Note 21: Dedicated Schools Grant

The Authority'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 Authority'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 2015/16 are shown in the following table:

	Central spending £millions	Individual Schools Budget £millions	Total £millions
Final Dedicated Schools Grant for 2015/16 - before Academy Recoupment	-49.970	-290.675	-340.645
Less: Academy figure recouped for 2015/16	-	124.572	124.572
Less: EFA Direct funded places recouped for 2015/16	1.243	-	1.243
Total Dedicated Schools Grant after Academy Recoupment for 2015/16	**-48.727**	**-166.104**	**-214.830**
Plus: Brought Forward from 2014/15	-3.031	-	-3.031
Final budgeted distribution for 2015/16	**-51.758**	**-166.104**	**-217.861**
Less actual central expenditure	51.009	-	51.009
Less: Actual ISB deployed to schools	-	166.104	166.104
Carry-forward to 2016/17	**-0.749**	**-**	**-0.749**

Note 22: Grant Income

The Authority credited the following grants, capital contributions and capital donations to the Comprehensive Income and Expenditure Statement in 2015/16:

2014/15 £millions		2015/16 £millions
	Credited to Taxation and Non Specific Grant Income	
-76.141	- Revenue Support Grant	-57.553
-2.090	- Council Tax Freeze Grant	-2.114
-0.273	- Lead Local Flood Authority Grant	-0.182
-1.036	- Bellwin	-
-0.134	- Inshore Fisheries Grant	-0.134
-3.024	- New Homes Bonus	-3.672
-1.544	- Business Rates Cap	-1.752
-0.431	- Rights to Free Travel	-0.360
-4.435	- Building Schools for the Future	-4.393
-0.009	- Community Rights to Challenge	-
-4.688	- Education Services Grant - Serv for LA	-4.461
-1.010	- Education Services Grant - Universal Ser	-
-0.451	- Local Reform and Community Voices Gnt	-0.336
-1.089	- Social Fund	-
-7.988	- Standards Fund Capital Grant	-9.068
-30.718	- Department for Transport Capital Grant	-12.146
-	- LEP	-19.004
-3.855	- Willowdown Primary Academy School	-
-10.444	- Other capital grants / Contributions	-5.438
-149.360	**Total**	**-120.613**
	Credited to Services	
-214.852	- Dedicated Schools Grant	-214.531
-4.293	- Standards Fund	-3.815
-0.466	- Adoption Reform Grants	-
-10.259	- Pupil Premium Grant	-10.512
-0.542	- Music Education Grant	-0.675
-1.051	- Special Educational Needs Reform Grant	-0.310
-0.520	- LEP - Start Up Fund	-0.533
-	- LEP - Growth Hub	-21.741
-2.316	- 16-19 Funding	-0.315
-3.799	- Sixth Form Funding (S6F)	-4.026
-1.600	- Primary PE and Sports Grant	-1.562
-3.213	- Skills Funding Agency (formerly Learning and Skills Council)	-1.915
-0.615	- Youth Justice	-0.522
-1.103	- Troubled Families	-0.773
-1.628	- Children and Young People services – other grants	-1.110
-	- School Centred Initial Teacher Training Bursary	-0.449
-	- Year 7 Catch Up preimium grant	-0.356
-	- Independent Living Fund	-1.075
-15.513	- Public Health grant	-18.345
-0.440	- DEFRA - AONB & LARC	-0.305
-	- European Agricultural Fund for Rural Development - LARC	-0.064
-3.212	- Universal Infants Free School Meals	-4.899
-	- Care Act	-3.658
-19.120	- Grant from Broadband Delivery UK	-11.230
-2.455	- Economic, Communities & Infrstructure services - other grants	-0.872
-	- Bus Service Operators Grant	-0.416
-0.277	- Adult services – other grants	-0.266
-2.403	- Building Schools for the Future contributions	-2.446
-0.558	- Other services grants	-0.174
-	- Transformation Challenge Award	-1.501
-1.900	- Somerset Rivers Authority	-
-0.357	- Bellwin	-
-292.492	**Total**	**-308.398**

Note 23: Partnerships and Related Party Transactions

The Authority is required to disclose material transactions with related parties; these are bodies or individuals that have the potential to control or significantly influence the Authority or to be controlled or significantly influenced by the Authority. Disclosure of these transactions allows readers to assess the extent to which the Authority 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 Authority.

Central Government

Central government has the ability to control or exercise significant influence over the general operations of the Authority. It is responsible for providing the statutory framework, within which the Authority operates, it provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties. The grants received from Central Government are disclosed in Note 22.

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 Authority. Senior officers were also required to declare transactions with the Authority. No material transactions have been identified.

Members

Elected Members of the Authority have direct control over the Authority's financial and operating policies. The total of Members' allowances paid in 2015/16 is shown in Note 17. 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 Authority 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 2015/16 a variety of transactions took place between the Authority and these organisations that are deemed not to be material.

Other Related Parties

The PLUSS Organisation, a company limited by guarantee, was an associate of the Authority up to December 2015. The Authority had a 25% share of voting rights. In 2015/16 the Authority paid £0.179 million to PLUSS as part of the service contract. With effect of January 2016 the Authority relinquished its ownership of PLUSS, which converted to a Community Interest Group.

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 2015/16 expenditure on services from Southwest One, including contract payments, was £27.286 million and income received from Southwest One, including payments for salaries of staff seconded from the Authority to Southwest One, was £10.573 million. At 31/03/2016 the Authority reported a Southwest One creditor of £0.011 million.

The Authority has significant influence over various small local companies (24 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 2015/16 was £10.910 million.

Futures for Somerset, a long term strategic partnership, is an associate of the Authority, in which the Authority has a 17% share of voting rights and influence over it's long term plans. In 2015/16 the Authority paid £0.544 million to Futures for Somerset.

Note 24: Property, Plant and Equipment

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
Cost or valuation								
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	498.582	63.066	529.270	0.822	5.920	24.452	1,122.112	-
Depreciation and impairments								
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	-16.345	-42.283	-227.961	-0.788	-0.313	-0.162	-287.852	-
Balance sheet amount at 1 April 2014	**522.331**	**23.289**	**289.654**	**0.052**	**4.354**	**13.143**	**852.823**	**-**
Balance sheet amount at 31 March 2015	**482.237**	**20.783**	**301.309**	**0.034**	**5.607**	**24.290**	**834.260**	**-**
Nature of asset holding at 31 March 2015								
Owned	457.184	19.867	301.309	0.034	5.607	24.290	808.291	-
Finance lease	25.053	0.916	-	-	-	-	25.969	-
	482.237	**20.783**	**301.309**	**0.034**	**5.607**	**24.290**	**834.260**	**-**

Movements in 2015/16	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
Cost or valuation								
At 1 April 2015	498.582	63.066	529.270	0.822	5.920	24.452	1,122.112	-
Additions	9.571	4.370	34.126	-	-0.008	18.177	66.236	-
Disposals	-5.621	-7.685	-	- 0.398	-0.075	-0.002	-13.781	-
Reclassifications	1.523	0.264	-	-	6.135	-0.675	7.247	-
Revaluation Increase/decrease (-):								
- to Revaluation Reserve *	12.879	-	-	-	-4.149	-	8.730	-
- to Surplus/Deficit on the provision of service	-5.405	-	-	-	-0.711	-	-6.116	-
At 31 March 2016	511.529	60.015	563.396	0.424	7.112	41.951	1,184.427	-
Depreciation and impairments								
At 1 April 2015	-16.345	-42.283	-227.961	-0.788	-0.313	-0.162	-287.852	-
Charge for 2015/16	-11.075	-8.045	-22.225	-0.002	-0.192	-	-41.539	-
Disposals	0.412	7.632	-	0.366	0.002	-	8.412	-
Reclassifications	0.406	-0.013	-	-	-5.411	-0.314	-5.332	-
Revaluations *	6.223	-	-	-	5.522	-	11.745	-
Impairment Losses (-)/reversals:								
- to Revaluation Reserve	-	-	-	-	-	-	-	-
- to Surplus/Deficit on the provision of service	-	-	-	-	-	-	-	-
At 31 March 2016	-20.379	-42.709	-250.186	-0.424	-0.392	-0.476	-314.566	-
Balance sheet amount at 1 April 2015	**482.237**	**20.783**	**301.309**	**0.034**	**5.607**	**24.290**	**834.260**	**-**
Balance sheet amount at 31 March 2016	**491.150**	**17.306**	**313.210**	**-**	**6.720**	**41.475**	**869.861**	**-**
Nature of asset holding at 31 March 2016								
Owned	468.844	16.630	313.210	-	6.720	41.475	846.879	-
Finance lease	22.306	0.676	-	-	-	-	22.982	-
	491.150	**17.306**	**313.210**	**-**	**6.720**	**41.475**	**869.861**	**-**

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 2016, the Authority anticipated investing £119.827m (£99.465m at 31 March 2015) in the construction or enhancement of Property, Plant, Equipment and Infrastructure during 2016/17 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:

- £17.093m for the Superfast Broadband Programme
- £0.960m contracts in relation to SMART Office
- £0.698m remaining for the Replacement of Countess Gytha Primary School in Queen Camel
- £0.630m for a four classroom extension at Holway Park Primary School in Taunton
- £0.625m for a double classroom extension at Somerset Bridge Primary School
- £0.580m for the Glastonbury Orchard Court in the Customer Access and Shared Assets Programme

Similar commitments listed at 31 March 2015 were £15.421m.

In addition to the individual items above the Authority also has 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 £23 million and £27 million in 2016/17 (£20-£24 million in 2015/16). These payments will relate to new projects in 2016/17 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 £4.0 million and £4.5 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 have been valued on the basis of Existing Use Value (EUV), in accordance with UKPS 1.3 of the RICS Valuation Standards;
- Surplus assets are revalued in accordance with the IFRS13 and RICS VPS 4.1.5.
- 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	Surplus Assets	PPE Under Construction	Total
	£millions	£millions	£millions	£millions	£millions	£millions
Carried at historical cost	-	17.306	313.210	-	41.475	**371.991**
Valued at fair value as at:						
31 March 2016	65.300	-	-	6.720	-	**72.020**
31 March 2015	361.573	-	-	-	-	**361.573**
31 March 2014	44.931	-	-	-	-	**44.931**
31 March 2013	12.837	-	-	-	-	**12.837**
31 March 2012	6.509	-	-	-	-	**6.509**
Total cost or valuation	**491.150**	**17.306**	**313.210**	**6.720**	**41.475**	**869.861**

Note 25: Intangible Non Current Assets

The Authority 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 £0.159 million for 2015/16 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 £0.088 million was charged to various services for use of specific IT systems.

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

2014/15 £millions		2015/16 £millions
	Balance at start of year:	
3.179	– Gross carrying amount	3.212
-1.396	– Accumulated amortisation	-1.778
1.783	**Net carrying amount at start of year**	**1.434**
	Movement in year:	
0.057	Purchases	0.098
-0.382	Amortisation for the period	-0.159
-0.024	Retirement	-
1.434	**Net carrying amount at end of year**	**1.373**

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

	Carrying amount at 31 March 2015 £millions	at 31 March 2016 £millions	Remaining Amortisation Period at 31 March 2016
SAP system licences (Integrated finance and payroll system)	1.282	1.210	17 years

Note 26: Impairment Losses

During the valuation process for 2015/16, consideration was given to the Authorities entire asset portfolio. From this review no material impairments to specific assets were recognised (£0.744m in 2014/15).

These disclosures are consolidated in Note 24 that reconciles the movements over the year in the property, plant and equipment balances.

Note 27: Assets Held For Sale

The majority of the Authority's assets held for sale at 31/03/2016 were former adult and children homes. The movement in the year is reflected in the table shown below:

Current 2014/15 £millions		Current 2015/16 £millions
6.468	**Balance outstanding at start of year**	**3.109**
	Assets newly classified as held for sale:	
1.609	Property, plant and equipment	0.345
0.077	Spend on assets held for sale	0.031
-	Revaluation losses	-0.102
-3.255	Impairment losses	-0.007
	Assets declassified as held for sale:	
-	Property, plant and equipment	-2.260
-1.790	Assets sold	-0.289
3.109	**Balance outstanding at year end**	**0.827**

Note 28: Surplus Assets – Fair Value Measurement

Valuation Process for Surplus Properties

The fair value of the Authority's surplus properties is measured annually at each reporting date. All valuations are carried out internally, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

When measuring the fair value of non-financial assets (e.g. surplus properties), highest and best use is determined only from the perspective of market participants even if the Authority intends a different use. The Authority has a responsibility to use its assets for the provision of public services not for its perceived highest and best use value. The Authority is also sometimes bound by various regulations that restricts use of those surplus assets.

Fair Value Hierarchy

Details of the Authority's surplus properties and information about the fair value hierarchy as at 31 March 2016 are as follows:

	Quoted prices in active markets for identical assets (level 1) £millions	Other significant observable inputs (level 2) £millions	Significant unobservable inputs (level 3) £millions	Fair value as at 31 March 2016 £millions
Office/specific use properties	-	0.125	2.535	2.660
Commercial units	-	0.203	-	0.203
Land	-	0.005	3.852	3.857
		0.333	**6.387**	**6.720**

Transfers between Levels of the Fair Value Hierarchy

The adoption of IFRS13 fair value measurement is prospective, so there is no comparable data. As such there were no transfers between the observable input levels during the year.

Valuation Techniques used to Determine Level 2 and 3 Fair Values for Surplus Properties

Significant Observable Inputs – Level 2
The fair value for some of the residential and commercial properties has been based on an approach using current market conditions, recent market prices and other relevant information for similar assets in the local authority and immediately surrounding areas. Market conditions are such that similar properties are actively purchased, sold and rented. Where the level of observable inputs is significant the valuations have been categorised at Level 2 in the fair value hierarchy.

Significant Unobservable Inputs – Level 3
Some of the office and commercial units located in the local authority area are measured using an investment approach, by capitalising the rental income/value (using a market-derived yield). The approach has been developed using the Authority's own data requiring it to factor in assumptions such as rent growth, occupancy levels, bad debt levels, tenant covenant strength, etc.

Some of the residential and commercial properties valued using a level 2 input of market rates also have a significant hope value applied. This is an amount over the existing use value but less than the value with planning consent for the proposed use. The hope value percentage has been calculated through valuer peer reviews and reflects the perceived chance of obtaining consent in a timely manner or at all.

Any property making use of either of these assumptions are therefore categorised as Level 3 in the fair value hierarchy. The measurement technique uses significant unobservable inputs to determine the fair value measurements (and there is no reasonably available information that indicates that market participants would use different assumptions).

Quantitative Information about Fair Value Measurement of Investment Properties using Significant Unobservable Inputs – Level 3

	As at 31/03/2016 £millions	Valuation technique used to measure fair value	Significant unobservable inputs	Range with (average used)	Sensitivity
Office/specific use properties	2.535	Investment income approach using market-derived yields	Hope values	10% - 75% '(20%)	Purchasers perceived risk of planning consent. 20% based on peer review for specific properties.
			Yield	6% - 10% '(7.02%)	Fluctuations in current market conditions.
			Conversion costs	Variable (20%)	Current condition and final specific required.
			Hectare price	Variable	Variable by site according to circumstance, ie residential/brownfield/amenity, location and condition.
Land	3.852	Value of developed land with significant hope values applied	Hope values	10% - 75% '(20%)	Purchasers perceived risk of planning consent. 20% based on peer review for specific properties.
			Conversion costs	Variable (20%)	Current condition and final specific required.
			Hectare price	Variable	Variable by site according to circumstance, ie residential/brownfield/amenity, location and condition.

The effect of the fair value measurements using significant unobservable inputs on the surplus or deficit on the provision of services or other comprehensive income and expenditure for 2015/16 is as follows:

- Depreciation of £0.192m has been charged to non distributed costs within the surplus or deficit on continuing operations.
- £0.700m of revaluation loss where there was no existing revaluation reserve. This went to the relevant service within the surplus or deficit on continuing operations.
- £1.368m as a gain to the Surplus or deficit on revaluation of fixed assets within other comprehensive income.

The surplus or deficits are directly affected by the assumptions used in the unobservable inputs and therefore influenced by any variations to the assumptions. For example if the unobservable input valuation is too prudent, the depreciation charge and the revaluation gain will be too low.

Note 29: Leases

Authority as Lessee

Finance Leases

The Authority has acquired a number of libraries, the Museum of Somerset, Dillington House (the Authority's 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 2015 £millions	31 March 2016 £millions
Other Land and Buildings	25.053	22.306
Vehicles, Plant and Equipment	0.916	0.676
	25.969	**22.982**

The Authority is committed to making minimum payments under these leases. This is made up of the settlement of the long-term liability and the finance costs which will be payable in future years whilst the liability remains outstanding.

Included within the minimum lease payment commitments for 2015/16 (below) are the finance lease liability and finance costs for the BSF Bridgwater PFI scheme. Although the schools have been de-recognised from the Authority's 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 30 for further details.

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

2014/15 £millions		2015/16 £millions
	Finance lease liabilities (net present value of minimum lease payments):	
0.845	- Current	0.950
45.695	- Non Current	44.744
68.662	Finance costs payable in future years	64.296
115.202	Minimum lease payments	**109.990**

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

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2015 £millions	31 March 2016 £millions	31 March 2015 £millions	31 March 2016 £millions
Not later than one year	5.269	5.318	0.845	0.950
Later than one year and not later than five years	20.737	20.485	3.723	3.774
Later than five years	89.196	84.187	41.971	40.970
	115.202	**109.990**	**46.539**	**45.694**

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 2015/16, £0.037m contingent rents were paid by the Authority (£0.031m in 2014/15).

The Authority has sub-let part of Taunton Museum (held under a finance lease) as an operating lease. At 31 March 2016, the minimum lease payments expected to be received under non-cancellable sub-leases was £0.141m (£0.144m in 2014/15).

Operating Leases

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

	31 March 2015		31 March 2016	
Operating Leases	Land & Buildings £millions	Vehicles & Equipment £millions	Land & Buildings £millions	Vehicles & Equipment £millions
Not later than one year	0.958	0.183	0.811	0.320
Later than one year and not later than five years	3.059	0.267	2.351	0.453
Later than five years	4.373	-	3.119	-
	8.390	**0.450**	**6.281**	**0.773**

The Authority has sub-let some of the assets acquired under operating leases. At 31 March 2016, the minimum lease payments expected to be received under non-cancellable sub-leases were £0.121m (£0.197m at 31 March 2015).

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

	31 March 2015 £millions	31 March 2016 £millions
Minimum Lease Payments	0.070	0.121
Less - Sub-lease payments receivable	-0.047	-0.084
	0.023	**0.037**

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 85 years. The Authority has also leased out (for a peppercorn rent) a section of Shire Hall to the Secretary of State on a finance lease with a remaining term of 100 years and also the Rural Life Barn museum to the Somerset Preservation Trust with a remaining term of 77 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 are comprised of the settlement of the long-term debtor (for the interest in the properties acquired by the lessee) and financing income that will be earned in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

	31 March 2015 £millions	31 March 2016 £millions
Finance lease debtor (net present value of minimum lease payments):		
- Current	0.028	0.028
- Non Current	18.305	17.418
Unearned Finance Income	63.340	59.425
Gross investment in the lease	**81.673**	**76.871**

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 2015 £millions	31 March 2016 £millions	31 March 2015 £millions	31 March 2016 £millions
Not later than one year	0.969	0.924	0.969	0.924
Later than one year and not later than five years	3.877	3.696	3.877	3.696
Later than five years	76.827	72.251	76.827	72.251
	81.673	**76.871**	**81.673**	**76.871**

During 2015/16, the Authority reviewed our arrangement with Somerset Care Ltd and is 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 2015/16. This will be reviewed again in 2016/17, 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 2015/16, £0.077m contingent rents were receivable by the Authority (£0.084m for 2014/15).

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 2015 £millions	31 March 2016 £millions
Not later than one year	0.240	0.284
Later than one year and not later than five years	0.422	0.716
Later than five years	0.779	1.121
	1.441	**2.121**

Note 30: 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.

The Authority, 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	0.690	4.343	1.679	0.396	**7.108**
Within 2 - 5 years	3.491	16.642	6.715	1.583	**28.431**
Within 6 - 10 years	6.612	18.553	8.394	1.978	**35.537**
Within 11 - 15 years	10.457	14.707	8.394	1.978	**35.536**
Within 16 - 20 years	16.539	8.625	8.394	1.978	**35.536**
Within 21 - 25 years	6.980	0.996	2.651	0.627	**11.254**
	44.769	**63.866**	**36.227**	**8.540**	**153.402**

Although the Authority 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 the Authority's balance sheet. This is also referred to in note 29 (Leases) on page 94.

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:

	2014/15 £millions	2015/16 £millions
Balance outstanding at start of year	45.877	45.362
Payments made during the year	-0.515	-0.593
Balance outstanding at year-end	**45.362**	**44.769**

The total estimated indexed payments under the contract amount to £207.810 million. These payments are scheduled to be funded from the following revenue streams:

	Proportion of Costs
Central Govt.Grant (PFI Credits)	82.0%
Delegated School Budgets	16.0%
SCC Contribution	2.0%
	100%

Note 31: Heritage Assets - Summary of Transactions

	2014/15 £millions	2015/16 £millions
Carrying Value - as at 1 April		
Numismatic collections	0.790	0.790
Art collections	0.008	0.066
Archaeology	0.016	0.166
Archives	0.380	0.380
Metalwork collections	0.130	0.130
	1.324	**1.532**
Cost of acquisitions of heritage assets		
Numismatic collections	-	-
Art collections	0.058	0.402
Archaeology	0.150	-
Archives	-	-
Metalwork collections	-	-
Total cost of purchases	**0.208**	**0.402**
Reclassifcation to/from heritage asset		
Numismatic collections	-	-
Art Collections	-	-
Archaeology	-	-
Archives	-	-
Metalwork collections	-	-
Total reclassifications	**0.000**	**0.000**
Carrying Value - as at 31 March		
Numismatic collections	0.790	0.790
Art Collections	0.066	0.468
Archaeology	0.166	0.166
Archives	0.380	0.380
Metalwork collections	0.130	0.130
Total Carrying Value - as at 31 March	**1.532**	**1.934**

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 32: Heritage Assets – Further information on the Authority’s 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.

The Authority will remain the owner of collections and other heritage assets (reported in note 31) 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 is open from 10.00-17.00 Tuesday to Saturday and the Brick and Tile Museum from 10.00-16.00 Tuesday and Thursday. The Rural Life Museum is currently undergoing a refurbishment as is currently closed to public access. Reopening is due in 2017. 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.

The Authority has not reported its 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.

The Authority has not reported its 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 the Authority 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.

The Authority has 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.

The Authority's 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.

The Authority has only reported in its 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.

The Authority has only reported in its 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 the Authority's 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 the Authority's 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 33: 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 2016;
- The fair value of the Authority's PFI / lease deferred liability and capital receipt 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 2015		31 March 2016	
	Carrying amount (Restated)	Fair Value (Restated)	Carrying amount	Fair Value
	£millions	£millions	£millions	£millions
Financial liabilities at amortised cost	-892.259	-892.259	-857.095	-857.095
PWLB	-160.291	-238.382	-160.283	-208.406
PFI/Finance lease deferred liability at discounted rate	-46.539	-85.550	-45.693	-80.103
Other long term loans	-173.198	-267.194	-173.338	-241.731
	-1,272.287	**-1,483.385**	**-1,236.409**	**-1,387.335**

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 our PWLB and LOBO's (within the 'other long term loans' figure above) has been calculated using Level 2 valuation techniques – see our Accounting Policy 12 (pg.40) for more details.

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 2016) arising from a commitment to pay interest to lenders above current market rates.

Financial Assets	31 March 2015 Carrying amount (Restated) £millions	31 March 2015 Fair Value £millions	31 March 2016 Carrying amount £millions	31 March 2016 Fair Value £millions
Cash and liquid deposits	69.680	69.680	39.131	39.131
Loans and receivables	272.605	283.821	290.023	296.528
Long-term investments	13.001	13.001	10.181	10.181
	355.286	**366.502**	**339.335**	**345.840**

As the Authority's 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 2016) attributable to the commitment to receive interest below current market rates. However, this is not the case.

The Authority has 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. The Authority also shows the money we receive to invest for other organisations as temporary loans.

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

2014/15 £millions		2015/16 £millions
	Investments through the Comfund for:	
3.750	– South West Councils	3.250
3.300	– Exmoor National Park	3.100
0.365	– Police Community Trust	0.365
-	– Police and Crime Commissioners Treasurers' Society	0.025
0.265	– Society of County Treasurers	0.260
-	– Society of Local Council Clerks	0.200
0.175	– Falcon Housing Trust	0.350
1.000	– Richard Huish College	1.750
0.100	– South West Regional Improvement and Efficiency Partnership	0.100
0.125	– Learning South West	0.125
0.060	– Wyvern Club	0.080
0.325	– King Alfred School	0.275
9.465		9.880
176.870	Our own short-term investments	213.094
186.335	Total temporary investments	222.974
0.083	Other temporary investments	-
0.719	Interest due on temporary investments	0.683
187.137	**Total short-term investments**	**223.657**
13.000	Our own long-term investments	10.180
0.001	Investment in South West One	0.001
13.001	**Total long-term investments**	**10.181**

Long-term debtors

2014/15 £millions		2015/16 £millions
	Loans to:	
0.520	Central Government (Academy loans)	0.440
0.153	Other authorities (mostly for housing)	0.135
5.505	Other organisations/individuals	4.390
-	Capital spending for probation to be funded in future years	-
0.044	Officers' car loans and leases	0.022
18.305	Leasing arrangements with Somerset Care Ltd	17.417
24.527		**22.404**

Short-term borrowing

2014/15 £millions		2015/16 £millions
-9.465	Other organisations investing in the Comfund	-9.880
-	Other temporary borrowing	-5.000
-0.039	Interest payable on temporary borrowing	-0.033
-9.504		**-14.913**

Long-term borrowing

2014/15 £millions		2015/16 £millions
	Loans due to be repaid:	
-	within one year	-0.018
-	between one and two years	-0.018
-	between two and five years	-0.054
-10.000	between five and 10 years	-20.030
-319.550	after more than 10 years	-309.550
-3.939	Interest due on long-term borrowing	-3.969
-333.489		**-333.639**

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

Note 34: 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 Authority’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 the Authority. 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 Authority 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 2015/16 can be found under the reports for the County Council meeting 18 February 2015, agenda item 6, Paper E. The Treasury Management Policy Statement is also available. These can be accessed via the hyperlinks below.

http://www1.somerset.gov.uk/council/board1/2015/For%20web%20upload/2015%20February%2018%20Item%206%20Report%20of%20the%20Leader%20and%20Cabinet%20items%20for%20decision%20Paper%20E%20Treasury%20Management%20Strategy%20Appendix%20B.pdf

http://www1.somerset.gov.uk/council/board1/2015/For%20web%20upload/2015%20February%2018%20Item%206%20Report%20of%20the%20Leader%20and%20Cabinet%20items%20for%20decision%20Paper%20E%20Treasury%20Management%20Strategy%202015-16%20Report.pdf

As had previously been the case with the Authority, and is now a requirement of the revised CLG guidance, the Authority 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 Authority'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.

Risk rating provider	Risk rating	Amount outstanding £millions	Potential at risk £millions
Fitch	**Money-market funds**		
	AAA	6.170	0.008
	Local Authorities		
	AA	23.000	0.012
	UK banks		
	AA	22.000	0.012
	A	80.000	0.048
	Overseas Banks		
	AA	95.000	0.051
	A	20.000	0.012
	UK building societies		
	A	20.000	0.012
		266.170	**0.155**
S&P	**Money-market funds**		
	AAA	6.170	-
	Local Authorities		
	AAA	23.000	0.003
	UK banks		
	AA	22.000	0.004
	A	80.000	0.056
	Overseas Banks		
	AA	75.000	0.015
	A	40.000	0.028
	UK building societies		
	A	20.000	0.014
		266.170	**0.120**
Moody's	**Money-market funds**		
	AAA	6.170	-
	Local Authorities		
	Aa	23.000	0.010
	UK banks		
	Aa	47.000	0.011
	A	55.000	0.034
	Overseas Banks		
	Aa	115.000	0.028
	UK building societies		
	A	20.000	0.012
		266.170	**0.095**
	Investment and highest risk	**266.170**	**0.155**

Liquidity / Refinancing Risk

The Authority has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. The Authority'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 Authority 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 Authority 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 33.

Market Risk

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

Note 35: Inventories

	Consumable Stores		Work In Progress		Total	Total
	2014/15 £millions	2015/16 £millions	2014/15 £millions	2015/16 £millions	2014/15 £millions	2015/16 £millions
Balance outstanding at start of year	**0.408**	**1.716**	**0.071**	**0.018**	**0.479**	**1.734**
Purchases	2.095	8.470	0.017	0.000	**2.112**	**8.470**
Recognised as an expense in the year	-0.787	-2.838	-0.070	-0.018	**-0.857**	**-2.856**
Balance outstanding at year-end	**1.716**	**7.348**	**0.018**	**0.000**	**1.734**	**7.348**

Note 36: Short term debtors and payments in advance

2014/15 £millions		2015/16 £millions
	Money owed to us by:	
	Government Departments:	
29.248	- Central Government	21.981
12.817	- Local Government	2.560
2.019	- NHS	4.555
0.111	- Public Corporations	0.002
0.038	Officers (for car loans and leasing arrangements)	0.015
10.538	Other organisations/individuals	8.498
6.133	Payments made in advance - Other organisations	6.282
0.012	Payments in Advance - Central Government	0.013
0.025	Payments in Advance - Local Government	0.056
60.941		**43.962**

Note 37: Short term creditors

2014/15 £millions		2015/16 £millions
	Money we owe to:	
	Government Departments:	
-6.517	- Central Government	-4.828
-7.275	- Local Government	-14.138
-1.039	- NHS	-2.127
-0.012	- Public Corporations	-
-48.791	Other organisations	-42.631
-8.998	Employees (under IAS19)	-8.879
-1.679	Receipts in advance - Other organisations	-1.448
-	Receipts in advance - Central Government	-0.007
-	Receipts in advance - OLA	-0.123
-	Receipts in advance - NHS	-
-74.311		**-74.181**

Note 38: Other long term liabilities

2014/15 £millions		2015/16 £millions
-45.694	Finance Lease Liability - due in more than 1 year	-44.744
-742.572	Pensions liability	-688.337
-788.266		**-733.081**

Note 39: Provisions

2014/15 £millions		2015/16 £millions
-6.164	Total insurance provision (excl. MMI) set aside on 1 April	-5.877
	Add:	
-1.632	- premiums received from services	-1.900
-0.048	- interest received	-
	Less:	
0.819	- insurance premiums paid	0.887
0.573	- net claims paid	0.722
0.527	- professional and administrative costs	0.636
0.048	Transfer to reserves set aside for other purposes	-
-5.877	**Total insurance provision set aside on 31 March**	**-5.532**
	Non-Service	
-2.345	NDR Collection Fund - Provision for appeals	-1.795
	Environment	
-0.013	Planning Enquiry	-
-1.616	Infrastructure	-
	Children's Services	
-0.388	Care Leavers Grant	-0.398
-	Youth Grants	-0.032
-0.040	Maiden Beech Academy Staffing Indemnity	-
	Adult Services	
-0.120	LD service user refunds	-
	Other Services	
-	Skanska Hard FM Contract Amendment	-0.059
-	Mount Travers House Delapidation	-0.075
-0.057	Employment tribunal provision	-
-10.456	**Total Provisions due in less than 1 year**	**-7.891**
	Municipal Mutual Insurance (MMI) Provision	
-0.261	Relating to asbestos claims paid by MMI	-0.298
-0.261	**Total Provisions due in more than 1 year**	**-0.298**

Insurance provision

The Authority’s own Insurance Fund directly covers a wide range of insurance risks. However, there are a very limited range of risks which are not covered by insurance and the Authority charges any loss which arises directly to the service concerned. At the end of the year we have £5.830 million of claims not yet finally agreed (£6.138 million in 2014/15) which we have not yet charged to the Fund, but have set aside this amount as a provision. The Authority also has an earmarked reserve for the Insurance Fund, which currently contains £4.190 million. As the Authority self-insures, we must put aside funds for any future claims as well as the current claims we must still pay.

Note 40: Revenue and Capital Grants/Contributions Receipt 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

2014/15 £millions		2015/16 £millions
	Capital Grant Receipts in Advance	
	Where the conditions are likely to be met within 1 year:	
-13.700	- Standards Fund (Schools Department for Education)	-11.608
-11.859	- Department for Transport	-23.726
-	- Local Enterprise Partnership Capital Grant	-3.061
-1.401	- Other	-1.506
-26.960		**-39.901**
	Where the conditions are likely to be met in more than 1 year:	
-7.687	- Standards Fund (Schools Department for Education)	-9.240
-2.200	- Department for Transport	-1.946
-9.887		**-11.186**
	Capital Contribution Receipts in Advance (RIA)	
	Where the conditions are likely to be met within 1 year:	
-2.467	- Section 106 Contributions	-0.802
-0.427	- Other Contributions to our Capital Schemes	-0.308
-2.894		**-1.110**
	Where the conditions are likely to be met in more than 1 year:	
-6.134	- Section 106 Contributions	-8.319
-0.254	- Other Contributions to our Capital Schemes	-3.257
-6.388		**-11.576**
-29.854	Total Capital Grant/Contributions RIA's, where conditions are likely to be met within 1 year	-41.011
-16.275	Total Capital Grant/Contributions RIA's, where conditions are likely to be met in more than 1 year	-22.762
-46.129	**Total**	**-63.773**

Revenue grants

2014/15 £millions		2015/16 £millions
	Revenue Grant Receipts in Advance	
	Where the conditions are likely to be met within 1 year:	
-0.781	- Central Government	-0.278
-0.045	- NHS	-0.061
-0.264	- Other Local Authorities	-0.022
-1.579	- Other organisations	-1.348
-2.669		**-1.709**
	Where the conditions are likely to be met in more than 1 year:	
-	- NHS	-
-4.752	- Other organisations	-5.290
-4.752		**-5.290**
-7.421		**-6.999**

Note 41: Usable Reserves

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

2014/15 £millions		2015/16 £millions
23.425	General Fund - Schools	25.530
25.672	General Fund - Other	21.010
56.951	Earmarked Reserves - set aside for revenue purposes	37.465
23.787	Capital Receipts Reserve	21.341
6.622	Capital Grants Unapplied Reserve	4.081
5.613	Capital Contributions Unapplied Reserve	5.307
142.070	**Total Usable Reserves**	**114.734**

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 42: Unusable Reserves

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

2014/15 £millions		2015/16 £millions
174.071	Revaluation Reserve	186.655
338.193	Capital Adjustment Account	359.120
18.333	Deferred Capital Receipts Reserve	17.446
-742.572	Pensions Reserve	-688.337
3.971	Collection Fund Adjustment Account	3.530
-8.998	Accumulated Compensated Absences Adjustment Account	-8.879
-217.002	**Total Unusable Reserves**	**-130.465**

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.

2014/15 £millions		2015/16 £millions	2015/16 £millions
205.704	**Balance at 1 April**		**174.071**
23.178	Upward revaluation of assets	25.824	
-41.212	Revaluation/Impairment (losses) not charged to the Surplus/Deficit on the Provision of Services	-5.452	
-18.034	Surplus/Deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services		**20.372**
-5.622	Difference between fair value depreciation and historical cost dep'n	-4.395	
-7.977	Accumulated gains on asset disposals	-3.393	
-13.599	Amount written off to the Capital Adjustment Account		**-7.788**
174.071	**Balance at 31 March**		**186.655**

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 7 provides a summary of the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2014/15 £millions			2015/16 £millions
319.150	**Balance at 1 April**		**338.194**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
-41.758	- Charges for depreciation and impairment of non current assets/assets held for sale	-41.538	
-10.640	- Revaluation losses on Property, Plant and Equipment	-6.123	
-0.382	- Amortisation of intangible assets	-0.159	
-0.702	- Reversal/(Increase) of Icelandic impairment	-0.051	
-27.878	- Revenue expenditure funded from capital under statute	-39.214	
-17.547	- 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	-5.659	
-98.907			-92.744
13.599	Adjusting amounts written out of the Revaluation Reserve		7.788
-85.308	Net written out amount of the cost of non current assets consumed in the year		-84.956
	Capital Financing applied in the year:		
6.602	- use of the Capital Receipts Reserve to finance new capital expenditure	6.159	
77.120	- Capital grants and contributions that have been applied to capital financing	85.164	
10.040	- Statutory provision for the financing of capital investment charged against the General Fund balance	5.924	
9.888	- Capital expenditure charged against the General Fund balance	8.584	
103.650			105.831
0.702	Repayment made in year to reduce the capitalised Icelandic investment impairment		0.051
338.194	**Balance at 31 March**		**359.120**

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.

2014/15 £millions		2015/16 £millions
20.338	**Balance at 1 April**	**18.333**
-0.028	Amounts transferred to the Capital Receipts Reserve during the year	-0.028
	Other movements:	
-1.977	Cancellation of finance leases	-0.859
18.333	**Balance at 31 March**	**17.446**

The cancellation of the finance lease relates to Preston Park House which was surplus to Somerset Care Ltd.’s 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.

2014/15 £millions		2015/16 £millions
-551.884	**Balance at 1 April**	**-742.572**
-157.875	Remeasurement gains / losses (-) on pension assets/liabilities	89.119
-62.271	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	-65.926
29.458	Employer's pensions contributions and direct payments to pensioners payable in the year	31.042
-742.572	**Balance at 31 March**	**-688.337**

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.

2014/15 £millions		2015/16 £millions
3.250	**Balance at 1 April**	**3.971**
1.402	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	-0.233
-0.681	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	-0.208
3.971	**Balance at 31 March**	**3.530**

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.

2014/15 £millions		2015/16 £millions
-7.867	**Balance at 1 April**	**-8.998**
7.867	Settlement or cancellation of accrual made at the end of the preceding year	8.998
-8.998	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	-8.879
-8.998	**Balance at 31 March**	**-8.879**

Note 43: Cash and Cash Equivalents

The Authority has several bank accounts for various purposes. Its main banking contract is with National Westminster Bank Plc.

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

2014/15 £millions		2015/16 £millions
5.455	Net Cash in hand	5.961
64.225	Short term Investment (initial maturity term less than 3 months)	33.170
69.680	**Cash and cash equivalents sub total**	**39.131**
-2.450	Bank overdraft	-1.634
67.230	**Cash and cash equivalents at the end of the reporting period**	**37.497**

Note 44: Cash Flow Statement – Operating Activities

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

2014/15 £millions		2015/16 £millions
29.748	Net surplus(-)/deficit on the provision of services	**50.290**
-41.825	Depreciation and amortisation	-41.697
-10.956	Impairment and downward valuations	-6.123
-32.814	IAS 19 - Pension Liability	-34.884
-19.524	Carrying amount of non-current assets sold	-6.518
22.831	Movement in working capital	-14.223
-82.288		**-103.445**
85.277	Adjustment for items that are investing or financing activities	86.003
32.737		**32.848**

The cash flows for operating activities include the following items:

2014/15 (Restated) £millions		2015/16 £millions
-3.777	Interest received	-3.353
20.308	Interest paid	16.976

NB/ The comparative years interest paid amount has been restated (£43.823m in last year's accounts) as this included a non-cash 'net interest cost on our defined pension liability', that although an interest cost in the Consolidated I&E does not represent an actual cashflow payment.

Note 45: Cash Flow Statement – Investing Activities

2014/15 £millions		2015/16 £millions
57.364	Purchase of property, plant and equipment, investment property and intangible assets	72.600
113.000	Purchase of short term and long term investments	135.000
0.382	Other payments for investing activities	0.186
-7.415	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	-3.713
-56.910	Proceeds from short term and long term investments	-101.210
-82.616	Other receipts from investing activities	-101.295
23.805	**Net cash flows from investing activities**	**1.568**

Note 46: Cash Flow Statement – Financing Activities

2014/15 £millions		2015/16 £millions
-0.855	Cash receipts of short and long term borrowing	-5.528
9.200	Repayments of short term and long term borrowing	-
0.759	Other payments for financing activities	0.845
9.104	**Net cash flows from financing activities**	**-4.683**

Note 47: 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.

2014/15 £millions		2015/16 £millions
357.855	Opening Capital Financing Requirement	346.376
	Capital Investment:	
65.957	- Property, Plant and Equipment	66.236
0.058	- Intangible Assets	0.097
0.208	- Heritage Asset	0.402
0.077	- Current Assets Held for Sale	0.031
27.878	- Revenue Expenditure Funded from Capital Under Statute	39.214
-2.006	Reduction of long-term capital debtors	-0.887
0.702	Capitalised Icelandic Investment Impairment/(Reversal)	0.051
	Sources of Finance	
-6.602	- Capital receipts	-6.159
-77.120	- Government grants and contributions	-85.167
	- Sums set aside from revenue:	
-9.888	- Direct revenue contributions	-8.581
-10.041	- MRP/loans fund principal	-5.924
-0.702	- Capitalised Icelandic Impairment Repayment	-0.051
346.376	**Closing Capital Financing Requirement**	**345.638**

2014/15 £millions		2015/16 £millions
	Explanation of movements in year	
-9.281	Increase/Decrease (-) in underlying need to borrow (supported by government financial assistance)	-5.079
-2.198	Increase/Decrease (-) in underlying need to borrow (unsupported by government financial assistance)	4.341
-11.479	**Increase/Decrease (-) in Capital Financing Requirement**	**-0.738**

Note 48: Contingent Liabilities

There are various on-going legal cases against the Authority with no certainty with regard to the percentage of success or the value of the claim.

The Authority 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 49: Trust Funds

The Authority has not included these funds, which it manage on behalf of trusts, on its 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 2016 the balances were:

2014/15 £millions		2015/16 £millions
0.903	Field House	0.879
0.039	Other trusts	-
0.942		**0.879**

The Authority is 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:

2014/15 (Restated) £millions		2015/16 £millions
-0.054	Total income	-0.054
0.077	Total spending	0.078
0.023	**(Surplus)/ Deficit**	**0.024**
0.608	Value of assets	0.584
0.608	**Total value of the fund**	**0.584**

Note 50: 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 Authority 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 2016 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 re-valued 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:

2014/15 £millions	%		2015/16 £millions	%
11.342	14.10	Pension costs charged to the accounts	12.276	15.49
0.028	0.03	Discretionary payments made	0.030	0.04

National Employment Savings Trust

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

2014/15 £millions	%		2015/16 £millions	%
0.014	1.00	Pension costs charged to the accounts	0.011	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:

	Local Government Pension Scheme & Unfunded Benefit Arrangements - Liabilities	
	2014/15 £millions	**2015/16 £millions**
Comprehensive Income and Expenditure Statement		
Net Cost of Services:		
- current service cost	37.411	45.069
- past service cost and gains/losses arising from settlements	0.030	-4.255
Financing and Investment Income and Expenditure:		
- net interest expense	24.831	25.112
Total Post-employment Benefit Charged to the Surplus or Deficit on the Provision of Services	**62.272**	**65.926**
Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement		
Remeasurement of the net defined benefit liability comprising:		
- return on plan assets (excluding the amount included in the net interest expense)	-46.516	19.684
- actuarial (gains) and losses arising on changes in demograpic assumptions	0.000	0.000
- actuarial (gains) and losses arising on changes in financial assumptions	204.645	-111.526
- other actuarial (gains)/losses on plan assets	0.000	0.000
- experience (gain)/loss on defined benefit obligation	-0.255	2.723
	157.874	**-89.119**
Total Post-employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**220.146**	**-23.193**
Movement in Reserves Statement		
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits in accordance with the Code	**-62.272**	**-65.926**
Actual amount charged against the General Fund Balance for pensions in the year:		
- employers' contributions payable to the scheme	**29.458**	**31.042**

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		
	2013/14 £millions	**2014/15 £millions**	**2015/16 £millions**
Present value of the defined benefit obligation:			
- Funded obligation	-1,174.774	-1,428.576	-1,371.544
- Unfunded obligation	-45.396	-47.744	-47.022
	-1,220.170	-1,476.320	-1,418.566
Fair value of plan assets	668.286	733.748	730.229
Net liability arising from defined benefit obligation	**-551.884**	**-742.572**	**-688.337**

The net liability shows the underlying commitments that the Authority has in the long run to pay retirement benefits. The total liability of £688.337 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 2016 has decreased by £54.235 million from 31 March 2015. This is due to changes in the financial assumptions used by the Fund Actuary during the year. For the year ending 31st March 2016 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:	**2014/15 £millions**	**2015/16 £millions**
Opening balance at 1 April	**668.286**	**733.748**
Interest income	29.222	24.271
Remeasurement gain/(loss):		
- return on plan assets (excluding the amount included in the net interest expense	46.516	-19.684
Other actuarial gains/(losses)	0.000	0.000
Employer contributions - funded	26.480	27.914
Employer contributions - unfunded	2.978	3.128
Contributions by scheme participants	8.696	8.763
Benefits paid (including unfunded)	-44.684	-42.243
Other	-3.746	-5.668
Closing balance at 31 March	**733.748**	**730.229**

The actual rate of return identified in the table above for 2015/16 represents a loss of -2.68% of plan assets (as at 1st April 2015).
The fair value of the Local Government Pension Scheme assets comprised:

Fair Value of Scheme Assets	2015/16 £millions
Cash and cash equivalents	11.684
Equities:	
- Quoted	175.255
- Standard Life Smaller Companies Fund	3.651
Private Equity:	
- Neuberger Berman Crossroads 2010 Fund	6.572
- Neuberger Berman Crossroads XX Fund	2.921
- South West Regional Venture Fund	0.730
Overseas Equities:	0.730
- North America	146.046
- Europe	75.945
- Japan	15.335
- Pacific (excluding Japan)	29.209
- Middle East	0.730
- Emerging market	1.460
- Nomura Japan Fund	21.177
- Pioneer Emerging Markets Fund	27.749
	507.510
Derivatives:	
- forward foreign exchange contracts	-0.730
Bonds:	
- UK Fixed Interest - Public Sector	32.130
- UK Index Linked - Public Sector	4.381
- Overseas - Corporate Sector Investment Grade	29.209
- Overseas - Corporate Sector High Yield	13.144
- Overseas - index linked - public sector	0.730
	79.594
Property:	
- UK Property Funds	81.786
- Overseas Property Funds	1.460
	83.246
Gilts:	
- UK Fixed Interest - Public Sector	19.716
- UK Index Linked - Public Sector	29.209
	48.925
Total assets	**730.229**

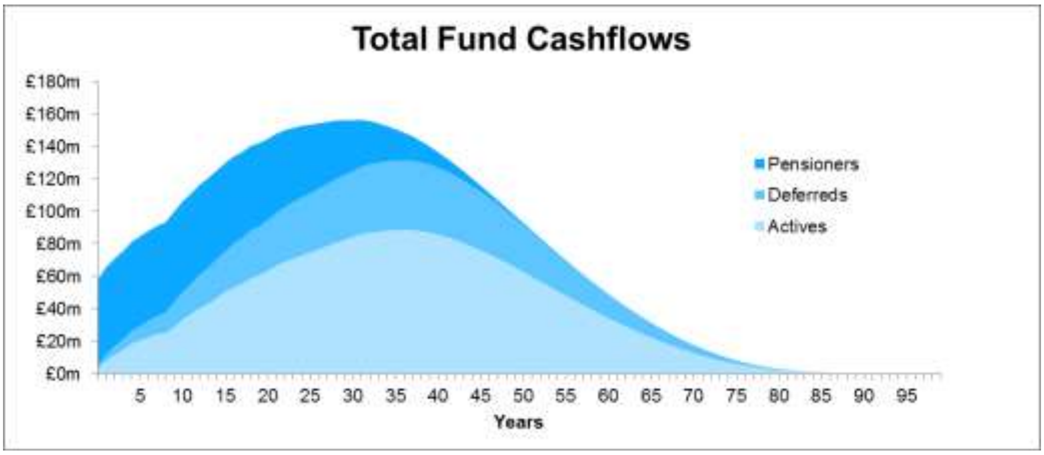
Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation):	2014/15	2015/16
	£millions	£millions
Opening balance at 1 April	**-1,220.170**	**-1,476.320**
Current service cost	-37.411	-45.069
Interest cost	-54.053	-49.383
Contributions by scheme participants	-8.696	-8.763
Past service costs, including curtailments	-1.862	-1.493
Settlements	5.578	11.416
Benefits paid (including unfunded)	44.684	42.243
Remeasurement gains and (losses):		
- actuarial gains/(losses) arising from changes in demographic assumptions	0.000	0.000
- actuarial gains/(losses) arising from changes in financial assumptions	-204.645	111.526
- experience gain/(loss) on defined benefit obligation	0.255	-2.723
Closing balance at 31 March	**-1,476.320**	**-1,418.566**

Impact on the Authority's Cashflows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Authority 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 £26.639m expected contributions to the scheme in 2016/2017 and an additional £1.537m towards the unfunded teacher's liability. The Authority is also committed to making an additional payment of £9.860m during 2016/17, as a lump sum deficit recovery contribution.

The weighted average duration of the defined benefit obligation for scheme members is 20 years for 2015/16 (20 years in 2014/15).

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 2016, 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 2016.

The principal assumptions used by the actuary have been:

2014/15		2015/16
	Long-term expected rate of return on assets in the scheme:	
13%	Expected return based on single net interest cost	1%
	Mortality Assumptions:	
	Longevity (in years) at 65 for current pensioners:	
23.7	- Men	23.8
26.1	- Women	26.2
	Longevity (in years) at 65 for future pensioners:	
26.0	- Men	26.1
28.4	- Women	28.5
2.5%	Rate of Inflation (CPI)	2.4%
4.3%	Rate of increase in salaries	4.2%
2.5%	Rate of increase in pensions	2.4%
3.4%	Rate of discounting scheme liabilities	3.7%

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.

Sensitivity Analysis	£000's	£000's	£000's
Adjustment to discount rate	**+0.1%**	**0.0%**	**-0.1%**
Present value of total obligation	1,391,869	1,418,566	1,445,802
Projected service cost	39,224	40,177	41,155
Adjustment to long term salary increase	**+0.1%**	**0.0%**	**-0.1%**
Present value of total obligation	1,421,772	1,418,566	1,415,381
Projected service cost	40,196	40,177	40,158
Adjustment to pension increases and deferred revaluation	**+0.1%**	**0.0%**	**-0.1%**
Present value of total obligation	1,442,918	1,418,566	1,394,693
Projected service cost	41,147	40,177	39,230
Adjustment to mortality age rating assumption	**+1 Year**	**None**	**-1 Year**
Present value of total obligation	1,461,502	1,418,566	1,376,932
Projected service cost	41,202	40,177	39,177

NHS Pension Scheme

In line with the NHS Manual, the Authority is 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:

2014/15			2015/16	
£millions	%		**£millions**	%
0.179	14.00	Pension costs charged to the accounts	0.153	14.30
0.007	0.61	Discretionary payments made	0.007	0.70

Group accounts

Group accounts bring together the accounts of Somerset County Council and other parties in which the Authority has a stakeholding.

PLUSS Ltd

Following Cabinet approval in Oct 2015, the Authority relinquished its interest in PLUSS Ltd. In December 2015, PLUSS Ltd converted to a Community Interest Company (CIC) and at this point the Authority's interest in the company ceased. As at 31st March 2016 the deed of termination was signed in May 2016.

Prior to the relinquishment of our interest in Dec 15, PLUSS Ltd was disclosed as a non-material associated in the Authority's accounts.

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 19.

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 the income and expenditure is classified within its previous status). Where income and expenditure is recorded centrally for Primary, Secondary and Special schools, this has been apportioned on a proportional basis to the level of VC, Community or VA status.

Type of School	No of Schools	Expenditure £millions	Income £millions
Community Primary	69	71.222	-66.390
Community Secondary	7	34.053	-30.255
Commuity Special (includes PRUs)	10	32.459	-30.027
VC Primary	63	48.375	-44.989
VC Secondary	2	7.207	-6.420
VA Primary	37	33.189	-30.860
Foundation Trust Primary	1	1.152	-1.073
Foundation Trust Secondary	2	11.878	-10.602
Foundation Trust Special Schools	2	4.334	-3.973

The Pension Fund

Local Government Pension Scheme (LGPS FUND)

By law, the Authority has 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 Authority 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 Authority'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 2015-2016 financial year were the second 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-31 March 2014 service and to career average re-valued earnings (CARE) for service since 1st April 2014, 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

2014/2015 £ millions	2014/2015 £ millions		2015/2016 £ millions	2015/2016 £ millions	Notes
		Contributions and other income			
20.328		Contributions from employees	20.651		1
59.283		Contributions from employers	62.302		1
1.425		Recoveries from member organisations	1.387		1
2.552		Transfer values received	3.238		2
83.588			**87.578**		
		Less benefits and other payments			
-61.789		Recurring pensions	-64.395		1
-14.513		Lump sum on retirement	-12.323		1
-1.383		Lump sum on death	-2.070		1
-69.269		Transfer values paid	-4.755		2
-0.087		Refund of contributions to leavers	-0.418		3
-147.041			**-83.961**		
	-63.453	**Net additions from dealings with members**		**3.617**	
		Management Expenses			
-0.993		Administrative expenses	-1.305		4
-5.063		Investment management expenses	-4.302		5
-0.599		Oversight and governance expenses	-0.650		6
-6.655	**-6.655**		**-6.257**	**-6.257**	
		Investment income			
47.766		Investment income received	40.947		7
5.131		Investment income accrued	4.603		7
-0.679		Less irrecoverable tax	-0.756		
0.003		Other income (such as commission)	0.000		
52.221			**44.794**		
		Change in market value of investments			
69.068		Realised profit or loss	26.168		9
74.375		Unrealised profit or loss	-65.516		9
143.443			**-39.348**		
	195.664	**Net return on investments**		**5.446**	
	125.556	**Net increase in the net assets available for benefits during the year**		**2.806**	
		Change in actuarial present value of promised retirement benefits			
-723.812		Vested benefits	75.629		10
281.510		Non-vested benefits	21.444		10
	-442.302	**Net change in present value of promised benefits**		**97.073**	
	-316.746	**Net increase/(decrease) in the fund during the year**		**99.879**	
	-1,117.239	Add net liabilities at beginning of year		-1,433.985	
	-1,433.985	**Net liabilities at end of year**		**-1,334.106**	

Net Asset Statement

On 31 March 2015 £ millions		On 31 March 2016 £ millions	Notes
	Investment assets and liabilities		
1,591.174	Investment assets	1,593.098	8
-0.324	Investment liabilities	-0.875	8
0.463	Other investment balances	1.772	11
	Current assets		
4.818	Contributions due from employers	4.920	
0.000	Cash at bank	0.002	
0.508	Other debtors	0.608	
	Current liabilities		
0.000	Unpaid benefits	0.000	
-0.004	Bank overdraft	0.000	
-1.423	Other creditors	-1.507	
1,595.212	**Net assets of the scheme available to fund benefits at end of year**	**1,598.018**	
	Actuarial present value of promised retirement benefits		
-2,883.798	Vested benefits	-2,808.169	10
-145.399	Non-vested benefits	-123.955	10
-1,433.985	**Net liabilities at end of year**	**-1,334.106**	

Accounting policies

The Pension Fund financial statements have also been prepared in line with the Code of Practice on Local Authority Accounting in the UK 2015/16, 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, Neuberger Berman Crossroads XX fund and the Neuberger Berman Crossroads XXI 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;

- 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	8.593	10.235	1.456	**20.284**
- Additional	0.178	0.171	0.018	**0.367**
Total	8.771	10.406	1.474	**20.651**
Employers' contributions				
- Normal	18.805	19.941	3.112	**41.858**
- Augmentation	0.718	0.389	0.203	**1.310**
- Deficit funding	8.517	9.426	1.191	**19.134**
Total	28.040	29.756	4.506	**62.302**
Recurring pension and lump sum payments	-39.699	-32.421	-6.668	**-78.788**
Money recovered from member organisations	0.060	1.305	0.022	**1.387**
	-2.828	**9.046**	**-0.666**	**5.552**

Note 1: Contributions and benefits (continued)

	Employees' contributions	Employers' contributions	Total
County council			
Somerset	8.771	28.040	36.811
Police & Crime Commissioner			
Avon & Somerset	4.534	10.472	15.006
District councils			
Mendip	0.284	1.071	1.355
Sedgemoor	0.548	1.992	2.540
South Somerset	0.715	2.319	3.034
Taunton Deane	0.878	2.799	3.677
West Somerset	0.000	0.260	0.260
Parish and town councils			
Axbridge Town Council	0.001	0.003	0.004
Berrow Parish Council	0.001	0.003	0.004
Burnham & Highbridge Town Council	0.005	0.013	0.018
Burnham & Highbridge Burial Board	0.006	0.017	0.023
Chard Town Council	0.010	0.035	0.045
Cheddar Parish Council	0.004	0.005	0.009
Crewkerne Town Council & Burial Board	0.006	0.021	0.027
Frome Town Council	0.024	0.067	0.091
Glastonbury Town Council	0.007	0.021	0.028
Ilminster Town Council	0.005	0.016	0.021
Langport Town Council	0.001	0.005	0.006
Lower Brue Drainage Board	0.032	0.085	0.117
Minehead Town Council	0.006	0.019	0.025
Nether Stowey Parish Council	0.001	0.003	0.004
Parret Drainage Board	0.001	0.003	0.004
Shepton Mallet Town Council	0.001	0.003	0.004
Somerton Town Council	0.004	0.010	0.014
Street Parish Council	0.003	0.009	0.012
Wellington Town Council	0.001	0.003	0.004
Wells Burial Board & Parish Council	0.023	0.034	0.057
Williton Parish Council	0.001	0.004	0.005
Wincanton Town Council	0.003	0.009	0.012
Yeovil Town Council	0.009	0.027	0.036
Other bodies			
Avon and Somerset Magistrates Courts	0.000	1.123	1.123
Exmoor National Park	0.118	0.318	0.436
Further-education colleges			
Bridgwater College	0.606	1.462	2.068
Richard Huish Sixth Form College	0.110	0.265	0.375
Somerset College of Art and Technology	0.214	0.537	0.751
Strode College	0.134	0.349	0.483
Yeovil College	0.184	0.496	0.680

Table continued on next page

Note 1: Contributions and benefits (continued)

	Employees' contributions	Employers' contributions	Total
Academies			
Ansford Academy	0.028	0.085	0.113
Avishayes Academy	0.018	0.059	0.077
Axbridge Academy	0.011	0.035	0.046
Bath & Wells Academy Trust	0.139	0.439	0.578
Bishop Fox’s Academy	0.045	0.137	0.182
Bridgwater College Academy	0.108	0.270	0.378
Brookside Academy	0.061	0.192	0.253
Bruton Sexey’s School	0.047	0.129	0.176
Brymore Academy	0.052	0.154	0.206
Buckland St. Mary Church of England School	0.002	0.007	0.009
Buckler’s Mead Academy	0.047	0.141	0.188
Buckler’s Mead Leisure	0.003	0.009	0.012
Castle Academy	0.063	0.169	0.232
Castle Primary School	0.009	0.031	0.040
Courtfields Academy	0.041	0.124	0.165
Crispin Academy	0.050	0.186	0.236
Danesfield Academy	0.024	0.075	0.099
Enmore Academy	0.006	0.017	0.023
Hambridge Primary School	0.012	0.041	0.053
Hamp Academy	0.019	0.059	0.078
Hayesdown Academy	0.012	0.040	0.052
Haygrove Academy	0.051	0.154	0.205
Holyrood Academy	0.063	0.191	0.254
Horrington Primary School	0.006	0.019	0.025
Huish Academy	0.018	0.057	0.075
Huish Episcopi Academy	0.072	0.230	0.302
Huish Episcopi Primary Academy	0.008	0.025	0.033
King Ina C of E Academy	0.000	0.000	0.000
King Ina (Monteclefe)	0.017	0.056	0.073
Kings of Wessex Academy	0.046	0.133	0.179
Kings of Wessex Leisure	0.013	0.030	0.043
Kingsmead Academy	0.042	0.125	0.167
Maiden Beech Academy	0.028	0.083	0.111
Manor Court Primary School	0.022	0.071	0.093

Table continued on next page

Note 1: Contributions and benefits (continued)

	Employees' contributions	Employers' contributions	Total
Academies (continued)			
Mendip School	0.002	0.007	0.009
Middlezoy Primary School	0.004	0.013	0.017
Minehead Middle School	0.039	0.116	0.155
North Town Academy	0.020	0.066	0.086
Oakfield Academy	0.031	0.097	0.128
Old Cleeve Academy	0.011	0.035	0.046
Othery Primary School	0.004	0.013	0.017
Pen Mill Academy	0.016	0.051	0.067
Preston Academy	0.048	0.145	0.193
Preston C of E Primary School	0.021	0.067	0.088
Priorswood Academy	0.015	0.049	0.064
Redstart Academy	0.025	0.073	0.098
Selwood Academy	0.037	0.114	0.151
St. Dunstan’s Academy	0.023	0.074	0.097
St. Cuthbert's Academy	0.007	0.041	0.048
St. Michael's Academy	0.012	0.038	0.050
St. Peter's Academy	0.006	0.020	0.026
Stanchester Academy	0.031	0.096	0.127
Steiner Academy, Frome	0.015	0.044	0.059
Tatworth Academy	0.008	0.027	0.035
Taunton Academy	0.041	0.121	0.162
The Blue School, Wells	0.084	0.245	0.329
Weare Academy	0.008	0.026	0.034
Wedmore Academy	0.016	0.050	0.066
Wellesley Park Primary School	0.016	0.053	0.069
West Somerset Community College	0.097	0.301	0.398
Westfield Academy	0.053	0.157	0.210
Whitstone Academy	0.029	0.088	0.117
Willowdown Academy	0.012	0.039	0.051
Woolavington Academy	0.012	0.039	0.051
Total other scheduled employers	10.406	29.756	40.162

Table continued on next page

Note 1: Contributions and benefits (continued)

	Employees' contributions	Employers' contributions	Total
Admitted bodies			
Aster Communities Ltd	0.046	0.219	0.265
BAM FM	0.008	0.022	0.030
Care Focus Somerset Ltd	0.004	0.009	0.013
Churchill Contract Services	0.002	0.006	0.008
Edward and Ward Ltd	0.028	0.087	0.115
Glen Cleaning Company Ltd	0.000	0.002	0.002
Homes in Sedgemoor	0.094	0.214	0.308
ICM	0.011	0.036	0.047
Learning South West	0.013	0.049	0.062
Leisure East Devon	0.012	0.022	0.034
Magna West Somerset Housing Association	0.075	0.225	0.300
Mama Bear's	0.002	0.007	0.009
May Gurney Ltd	0.029	0.077	0.106
MD Building Services	0.033	0.084	0.117
MITIE	0.003	0.012	0.015
National Autistic Society	0.010	0.056	0.066
NSL Ltd	0.026	0.071	0.097
SHAL Housing Ltd	0.046	0.135	0.181
1610 Ltd	0.048	0.089	0.137
SASP	0.012	0.022	0.034
Society of Local Council Clerks	0.022	0.060	0.082
Somerset Care Ltd	0.046	0.310	0.356
Somerset Skills & Learning	0.070	0.159	0.229
Somerset Rural Youth Project	0.000	0.000	0.000
South West Audit Partnership	0.101	0.397	0.498
South West Heritage	0.079	0.191	0.270
South West Provincial Councils	0.041	0.184	0.225
Taylor Shaw Ltd	0.003	0.009	0.012
Tone Leisure Ltd	0.094	0.185	0.279
Wyvern Nursery Ltd	0.022	0.041	0.063
Yarlington Housing Group	0.494	1.526	2.020
Total admitted employers	1.474	4.506	5.980
Total	**20.651**	**62.302**	**82.953**

Note 2: Transfer values

2014/2015 £ millions		2015/2016 £ millions
0.000	Group transfer values received	0.000
2.552	Individual transfer values received	3.238
2.552		**3.238**
-63.123	Group transfer values paid	-1.330
-6.146	Individual transfer values paid	-3.425
-69.269		**-4.755**

Note 3: Refunds

2014/2015 £ millions		2015/2016 £ millions
-0.059	Contributions refunded to members who leave service	-0.222
-0.003	Interest accumulated on refunds agreed in the past	-0.001
-0.062		**-0.223**
-0.035	Deductions from contributions equivalent premium	-0.231
0.010	Less payments to Department for Work and Pensions contributions equivalent premium	0.036
-0.087		**-0.418**

Note 4: Administrative expenses

2014/2015 £ millions		2015/2016 £ millions
-0.216	Benefits administration costs charged by Somerset CC	-0.123
-0.749	Benefits administration costs charged by Devon CC	-1.168
-0.965		**-1.291**
0.000	Legal advice costs charged by Somerset CC	0.000
-0.028	External legal advice	-0.014
-0.028		**-0.014**
0.000	Other expenses	0.000
-0.993		**-1.305**

Note 5: Investment management expenses

2014/2015 £ millions		2015/2016 £ millions
	Fund manager fees	
-0.252	Aviva	-0.261
-0.689	Jupiter*	-0.574
-0.176	Maple-Brown Abbott*	-0.144
-0.191	Pioneer	-0.180
-0.042	Somerset County Council	-0.042
-1.566	Standard Life*	-1.155
-0.449	Other fund managers	-0.549
-3.365		**-2.905**
	Other expenses	
-1.246	Transaction costs	-0.886
-0.045	Custody fees	-0.043
-0.407	Property unit trust managers' fees	-0.468
-1.698		**-1.397**
-5.063		**-4.302**

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 2015/2016 financial year are £166,000 (£781,000 in 2014/2015).

The transaction costs shown above are broken down as follows:

2014/2015 £ millions Broker comm-issions	2014/2015 £ millions Taxes and Fees	Manager	Asset Class	2015/2016 £ millions Broker comm-issions	2015/2016 £ millions Taxes and Fees
		Purchase Costs			
0.028	0.043	Somerset County Council	Passive global equity	0.014	0.026
0.173	0.558	Standard Life	UK equity	0.136	0.468
0.009	0.000	Somerset County Council	Passive US equity	0.004	0.000
0.012	0.002	Jupiter	European equity	0.023	0.011
0.000	0.000	Nomura	Japanese equity	0.000	0.000
0.067	0.014	Maple-Brown Abbott	Far East equity	0.021	0.002
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	TVP	UK venture capital	0.000	0.000
0.000	0.000	Somerset County Council	Cash	0.000	0.000
0.289	0.617			0.198	0.507
		Sales Costs			
0.031	0.018	Somerset County Council	Passive global equity	0.013	0.008
0.171	0.000	Standard Life	UK equity	0.112	0.000
0.010	0.001	Somerset County Council	Passive US equity	0.006	0.000
0.027	0.000	Jupiter	European equity	0.018	0.000
0.000	0.000	Nomura	Japanese equity	0.000	0.000
0.045	0.037	Maple-Brown Abbott	Far East equity	0.017	0.007
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	TVP	UK venture capital	0.000	0.000
0.000	0.000	Somerset County Council	Cash	0.000	0.000
0.284	0.056			0.166	0.015
0.573	**0.673**			**0.364**	**0.522**
	1.246				**0.886**

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

2014/2015 £ millions		2015/2016 £ millions
0.000	Committee services costs charged by Somerset CC	-0.010
-0.271	Investments administration costs charged by Somerset CC	-0.269
-0.271		**-0.279**
-0.112	Actuary's fees	-0.123
0.048	Recharge of Actuary's fees to employers	0.059
-0.064		**-0.064**
-0.024	External audit fees	-0.024
0.003	Fee rebate	0.000
-0.021		**-0.024**
0.000	Internal audit costs charged by South West Audit Partnership	0.000
-0.057	Professional services and subscriptions	-0.065
-0.125	IT systems	-0.134
-0.022	Performance measurement fees	-0.023
-0.006	External legal advice	-0.015
-0.023	Voting advice fees	-0.023
0.000	Pooling costs	-0.013
-0.010	Other expenses	-0.010
-0.599		**-0.650**

Note 7: Investment income

2014/2015 £ millions		2015/2016 £ millions
10.293	Fixed interest	10.209
0.672	Index linked	0.576
14.347	UK equities	14.245
13.344	Foreign equities	12.699
13.764	Property unit trusts	7.186
0.192	Cash invested internally	0.171
0.000	Venture capital	0.000
0.000	Commission recapture	0.000
0.285	Stock lending	0.464
52.897		**45.550**

Note 8: Investment Assets & Liabilities

31 March 2015 £ millions	31 March 2015 £ millions	%	%		31 March 2016 £ millions	31 March 2016 £ millions	%	%
				UK equities				
403.005		25.3		Quoted	382.638		24.0	
8.604		0.5		Standard Life smaller companies fund	7.934		0.5	
	411.609		**25.8**			**390.572**		**24.5**
				Overseas equities				
329.413		20.7		North America	318.694		20.0	
161.615		10.2		Europe	164.866		10.4	
37.042		2.3		Japan	34.056		2.1	
69.320		4.4		Pacific (not including Japan)	63.182		4.0	
0.936		0.1		Middle East	1.096		0.1	
3.556		0.2		Emerging market	3.343		0.2	
47.940		3.0		Nomura Japan fund	45.672		2.9	
63.497		4.0		Pioneer emerging markets fund	60.977		3.8	
	713.319		**44.9**			**691.886**		**43.5**
				Bonds				
41.535		2.6		UK fixed-interest - public sector	42.801		2.7	
126.265		7.9		- corporate sector investment grade	70.170		4.4	
8.915		0.6		- corporate sector high yield	9.366		0.6	
0.000		0.0		Overseas - public sector	0.000		0.0	
5.608		0.4		- corporate sector investment grade	62.806		4.0	
30.611		1.9		- corporate sector high yield	28.915		1.8	
64.468		4.0		UK index-linked - public sector	63.979		4.0	
0.246		0.0		Overseas index-linked - public sector	1.298		0.1	
	277.648		**17.4**			**279.335**		**17.6**
				Property				
151.175		9.5		UK property funds	178.915		11.2	
3.451		0.2		Overseas property funds	3.093		0.2	
	154.626		**9.7**			**182.008**		**11.4**
				Private equity				
14.031		0.9		Neuberger Berman Crossroads 2010 fund	14.252		0.9	
3.004		0.2		Neuberger Berman Crossroads XX fund	5.912		0.4	
0.000		0.0		Neuberger Berman Crossroads XXI fund	1.461		0.1	
1.920		0.1		South West regional venture fund	1.920		0.1	
	18.955		**1.2**			**23.545**		**1.5**
				Derivatives				
1.276		0.1		Forward foreign-exchange contracts	0.045		0.0	
0.000		0.0		Government bond futures	0.000		0.0	
	1.276		**0.1**			**0.045**		**0.0**
				Cash and others				
13.741		0.9		Cash invested internally	25.707		1.6	
	13.741		**0.9**			**25.707**		**1.6**
	1,591.174		**100.0**	**Investment assets**		**1,593.098**		**100.1**

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Note 8: Investment Assets & Liabilities (continued)

31 March 2015 £ millions	£ millions	%	%		31 March 2016 £ millions	£ millions	%	%
				Derivatives				
-0.324		0.0		Forward foreign-exchange contracts	-0.875		-0.1	
0.000		0.0		Government bond futures	0.000		0.0	
	-0.324		**0.0**			**-0.875**		**-0.1**
	-0.324		**0.0**	**Investment liabilities**		**-0.875**		**-0.1**
	1,590.850		**100.0**	**Net investment assets**		**1,592.223**		**100.0**
				Made up of				
	1,232.681			Historical cost		1,299.570		
	358.169			Unrealised profit or loss		292.653		
	1,590.850					**1,592.223**		

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
2014/2015	Total	1,461.203	-33.340	1,231.301	-1,211.757	69.068	74.375	1,590.850
Somerset County Council	Global equity	404.465	0.000	47.334	-50.979	1.343	-19.061	383.102
Standard Life	UK equity	381.277	0.000	134.599	-108.328	12.362	-56.443	363.467
Somerset County Council	US equity	89.129	0.000	23.262	-26.175	-0.043	-0.614	85.559
Jupiter	European equity	92.358	0.000	27.428	-18.425	-5.009	5.091	101.443
Nomura	Japanese equity	47.940	0.000	0.000	0.000	0.000	-2.268	45.672
Maple-Brown Abbott	Far East equity	46.262	0.000	10.400	-8.110	-1.426	-4.888	42.238
Pioneer	Emerging Market equity	63.497	0.000	0.000	0.000	0.000	-2.520	60.977
Standard Life	Bonds	277.648	0.000	83.814	-74.596	-0.932	-6.599	279.335
Standard Life	Derivatives	0.705	0.000	889.761	-889.692	-0.070	-1.419	-0.715
Aviva	Property	154.626	0.000	34.142	-14.399	-14.258	21.897	182.008
Aviva	Currency	0.247	0.000	19.601	-19.601	0.000	-0.362	-0.115
Neuberger Berman	Global private equity	17.035	0.000	4.022	-0.941	0.037	1.472	21.625
TVP	UK venture capital	1.920	0.000	0.000	0.000	0.000	0.000	1.920
Somerset County Council	Cash	13.741	-22.396	0.000	0.000	34.164	0.198	25.707
2015/2016	**Total**	**1,590.850**	**-22.396**	**1,274.363**	**-1,211.246**	**26.168**	**-65.516**	**1,592.223**

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 2016, 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 2015		31 March 2016
	Financial assumptions	
3.3%	RPI increases	3.3%
2.5%	CPI increases	2.4%
4.3%	Salary increases	4.2%
2.5%	Pension increases	2.4%
3.4%	Discount Rate	3.7%
	Life expectancy (from age 65)	
23.7	Retiring today - Males	23.8
26.1	- Females	26.2
26.0	Retiring in 20 years - Males	26.1
28.4	- Females	28.5

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.

2014/2015 £ millions		2015/2016 £ millions
79.362	Current service cost	101.936
111.526	Interest cost	101.986
407.323	Change in financial assumptions	-241.303
0.000	Change in demographic assumptions	0.000
0.000	Experience loss/(gain) on defined benefit obligations	0.000
-95.516	Liabilities assumed/(extinguished) on settlements	-1.560
-84.602	Estimated benefits paid net of transfers in	-80.723
3.901	Past service costs, inculding curtailments	1.940
20.308	Contributions by scheme members	20.651
442.302		**-97.073**

Note 11: Other investment balances

31 March 2015 £ millions		31 March 2015 £ millions
	Assets	
4.214	- Accrued income	4.577
0.917	- Accrued Recoverable tax	0.000
0.372	- Payments due on investments sold	2.044
5.503		**6.621**
	Liabilities	
-5.040	- Payments not made on purchases and losses due on sales	-4.849
0.463		**1.772**

Note 12: Management structure

31 March 2015 £ millions	%	Manager	Asset class	31 March 2016 £ millions	%
404.465	25	Somerset County Council	Passive global equity	383.102	24
381.277	24	Standard Life	UK equity	363.467	23
89.129	6	Somerset County Council	Passive US equity	85.559	5
92.358	6	Jupiter	European equity	101.443	6
47.940	3	Nomura	Japanese equity	45.672	3
46.262	3	Maple-Brown Abbott	Far East equity	42.238	3
63.497	4	Pioneer	Emerging market equity	60.977	4
278.353	17	Standard Life	Bonds	278.620	18
154.873	10	Aviva	Property	181.893	11
17.035	1	Neuberger Berman	Global private equity	21.625	1
1.920	0	Technology Venture Partners	UK venture capital	1.920	0
13.741	1	Somerset County Council	Cash	25.707	2
1,590.850	**100**	**Net investment assets**		**1,592.223**	**100**

Note 13: Major holdings

31 March 2015 Rank	£ millions	Stock	Description	31 March 2016 Rank	£ millions
1	63.497	Pioneer Emerging Market Equity Fund	Pooled fund of emerging market equities	1	60.977
2	47.940	Nomura Japan Fund	Pooled fund of Japanese equities	2	45.672
3	24.904	HSBC	UK bank	3	19.222
6	15.281	Schroders UK PUT	UK property unit trust	4	18.524
-	0.000	CBRE UK Property Fund	UK property unit trust	5	17.891
4	15.699	Aviva Pooled Pension PUT	UK property unit trust	6	17.215
19	11.281	IPIF	UK property unit trust	7	16.067
13	12.490	Glencore	UK mining company	8	16.000
7	15.267	Royal Dutch Shell	UK oil company	9	14.594
9	14.136	Vodafone	UK mobile phone company	10	14.423
10	14.031	Neuberger Berman Crossroads 2010 fund	Private equity fund	11	14.252
5	15.291	BP	UK oil company	12	13.277
18	11.305	BT	UK phone company	13	11.353
21	10.010	International Consolidated Airlines	UK airline company	14	11.078
11	13.619	Lloyds Bank	UK bank	15	11.024
20	10.594	Lendlease	UK property unit trust	16	11.002
22	9.836	Threadneedle Property Trust	UK property unit trust	17	10.977
44	6.361	WELPUT	UK property unit trust	18	10.504
25	9.043	Henderson UK Property Trust	UK property unit trust	19	10.049
12	12.950	Prudential	UK life insurance company	20	10.045

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 3.8% 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 2015 £ millions				31 March 2016 £ millions		
Asset	Liability	Net value		Asset	Liability	Net value
			Forward foreign-exchange contracts			
1.029	-0.324	0.705	Standard Life fixed Interest	0.045	-0.760	-0.715
0.247	0.000	0.247	Aviva	0.000	-0.115	-0.115
1.276	**-0.324**	**0.952**		**0.045**	**-0.875**	**-0.830**
			Government bond futures			
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	Austrialian 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
0.000	**0.000**	**0.000**		**0.000**	**0.000**	**0.000**
1.276	**-0.324**	**0.952**		**0.045**	**-0.875**	**-0.830**

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 2015 £ millions Asset exposure value	Liability exposure value	Net value		31 March 2016 £ millions Asset exposure value	Liability exposure value	Net value
			Forward foreign-exchange contracts			
53.041	-52.336	0.705	Standard Life fixed Interest	43.833	-44.548	-0.715
4.304	-4.057	0.247	Aviva	2.947	-3.062	-0.115
57.345	**-56.393**	**0.952**		**46.780**	**-47.610**	**-0.830**
			Government bond futures			
4.095	-4.095	0.000	UK gilt future	1.818	-1.818	0.000
0.000	0.000	0.000	European bond future	3.396	-3.396	0.000
3.999	-3.999	0.000	Austrialian bond future	3.496	-3.496	0.000
0.000	0.000	0.000	Canadian bond future	0.000	0.000	0.000
11.084	-11.084	0.000	US treasury future	4.462	-4.462	0.000
19.178	**-19.178**	**0.000**		**13.172**	**-13.172**	**0.000**
76.523	**-75.571**	**0.952**		**59.952**	**-60.782**	**-0.830**

Note 15: Stock Lending

31 March 2015 £ millions		31 March 2016 £ millions
117.118	Value of stock on loan	129.152
128.515	Value of collateral held against loaned stock	142.497

31 March 2015 %		31 March 2016 %
	Form of collateral provided	
14.2	UK Government debt	5.5
5.6	US Government debt	3.0
25.2	Euro area Governments debt	21.3
0.0	US$ denominated corporate debt	0.0
0.0	€ denominated corporate debt	0.0
1.9	UK equities	19.8
53.1	Overseas equities	50.4
0.0	Other	0.0
100.0		**100.0**

Note 16: Membership Statistics

As at 31 March	2010	2011	2012	2013	2014	2015	2016
Active scheme members	**20,450**	**20,492**	**19,505**	**19,446**	**21,057**	**22,020**	**22,649**
Pensioners							
Current (in payment)	10,821	11,664	12,301	12,636	12,460	13,871	14,779
Deferred (future liability)	13,817	14,923	14,509	15,823	17,006	17,280	20,452
Undecided leavers *			2,307	3,135	3,147	3,754	2,507
Total (active plus pensioners)	**45,088**	**47,079**	**48,622**	**51,040**	**53,670**	**56,925**	**60,387**
Active members for each current pensioner	1.89	1.76	1.59	1.54	1.69	1.59	1.53

* For 2010 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.

31 March 2015 £ millions		31 March 2016 £ millions
	Value of additional voluntary contributions	
4.499	Prudential	4.451
0.393	Equitable Life	
4.892		**4.451**

2014/2015 £ millions		2015/2016 £ millions
	Additional voluntary contributions paid during the year	
0.493	Prudential	0.502
0.000	Equitable Life	0.000
0.493		**0.502**

Note 18: Related Parties

Pensions Committee members James Hunt 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. Committee member Richard Parrish's wife is a member of the standard scheme.

Pensions Committee member Sarah Payne has personal investments that are managed by Jupiter Asset Management.

Pension Board members Paul Deal, James Gilbody and Patricia Rowe were active members of the standard scheme during the year. Board member Mark Johnson was an active member of the standard scheme during his tenure on the Board but ceased to be a member of the standard scheme on leaving the employment of Somerset County Council and ceasing to be a Board member.

The fund holds shares in a number of companies that the Authority 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 the Authority 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 the Auhtority 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 the Authority 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 2016 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 2016 Post title	Salary (including fees and allowances) £	Compensation for loss of office £	Benefits in kind £	Total wages and benefits but not including pensions contributions 2015/16 £	Employer's pension contributions £	Total wages and benefits including pensions contributions 2015/16 £
Director of Finance and Performance	102,500.00	-	-	102,500.00	13,800.00	116,300.00
Strategic Manager - Finance Technical	64,400.00	-	-	64,400.00	8,700.00	73,100.00

For comparison purposes the equivalent disclosure for the financial year ended 31 March 2015 is shown in the table below.

Year to 31 March 2015 **Post title**	**Salary (including fees and allowances) £**	**Compensation for loss of office £**	**Benefits in kind £**	**Total wages and benefits but not including pensions contributions 2014/15 £**	**Employer's pension contributions £**	**Total wages and benefits including pensions contributions 2014/15 £**
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

Note 20: Statement of Investment Principles

The Authority has 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 2016.

Note 22: Post balance sheet events

On 23 June the UK voted in a referendum to leave the European Union. At the time of publishing these Accounts the Fund believes that whilst the change in the value of the assets and assessment of liabilities since the Net Asset Statement date due to movement in financial markets is material, it is not outside the range of movement experienced in the past and it is not possible to attribute how much of this movement is due to the referendum result.

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 2016 being £1,592m.

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 the Authority believe 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 2016 by the amounts shown below.

Asset class	**Value of Assets £ millions**	**Volatility**	**Increase in Assets £ millions**	**Decrease in Assets £ millions**
UK equities	390.572	17.90%	69.912	-69.912
Overseas equities	691.886	15.30%	105.859	-105.859
UK bonds	122.337	7.70%	9.420	-9.420
Overseas bonds	93.019	13.20%	12.279	-12.279
UK index-linked bonds	63.979	7.20%	4.606	-4.606
Property	182.008	6.20%	11.284	-11.284
Cash	25.707	0.00%	0.000	0.000
Others	22.715	7.50%	1.704	-1.704
Net investment assets	**1,592.223**		**215.064**	**-215.064**

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 Authority'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 £25.7m 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. 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 it 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 the Authority 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	390.572			390.572
Overseas equities	691.886			691.886
Bonds	279.335			279.335
Property funds		182.008		182.008
Private Equity funds			23.545	23.545
Forward foreign-exchange contracts	-0.830			-0.830
Government bond futures	0.000			0.000
Cash	25.707			25.707
Net investment assets	**1,386.670**	**182.008**	**23.545**	**1,592.223**

Note 25: Disclosures

Under IFRS the fund must disclose what consideration it has given to accounting standards that have not been adopted. For the 2015-16 accounts the Authority has yet to adopt the following accounting standards:

Amendments to IAS 19 Employee Benefits (Defined Benefit Plans: Employee Contributions)

The objective of this amendment was to clarify the requirements of paragraph 93 of IAS19.

Amendment to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The objective of this amendment was to clarify the acceptable methods of depreciation and amortisation for Property, plant and equipment and Intangible assets.

Amendments to IFRS 11 Joint Arrangements (Accounting for Acquisitions of Interests in Joint Operations)

The objective of these amendments was to provide guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions.

Amendment to IAS 1 Presentation of Financial Statements (Disclosure Initiative)

The objective of this initiative was to explore opportunities to see how those applying IFRS can improve and simplify disclosures within existing disclosure requirements. An example of some of the changes that will apply in the Authority's 2016/17 accounts are:

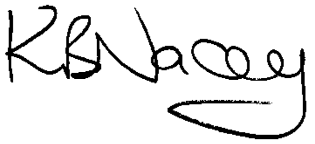
- Changes to the format of the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and the introduction of the new Expenditure and Funding Analysis

- Changes to the format of the Pension Fund Account and the Net Assets Statement.

Annual Improvements to International Financial Reporting Standards (IFRSs) 2010 – 2012 Cycle and 2012 – 2014 Cycle

The International Accounting Standards Boards (IASB) annual improvements project provides a streamlined process for dealing efficiently with a collection of amendments to IFRSs. The primary objective of the process is to enhance the quality of standards, by amending existing IFRSs to clarify guidance and wording, or to correct for relatively minor unintended consequences, conflicts or oversights. Amendments are made through the annual improvements process when the amendment is considered non-urgent but necessary.

The Authority anticipates that none of these amendments or improvements will have a material impact on our accounts when they are applied prospectively from 1st April 2016.



Kevin Nacey, Director of Finance and Performance
July 2016

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 the Authority owes 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 the Authority's agreement. Examples of these organisations include housing associations, development agencies and companies providing services that the Authority 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 the Authority has an interest and over whose operating and financial policies the Authority has a lot of influence.

Biodegradable municipal waste
Household waste that naturally breaks down or rots over time.

Capital charges
Charges the Authority makes to services for using fixed assets when providing the service.

Capital contributions and grants
Money the Authority receives towards paying for capital spending on a particular service or scheme.

Capital financing charges
The charge to the Authority's 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
The Authority's 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 it 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 the Authority has 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
The Authority operates 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 the Authority 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 the Authority knows the outcome of claims made against us which have not yet been settled.

Co-optee
A person who is not a member of the Authority but is a member of a committee or sub-committee of the Authority.

Corporate and democratic core
Spending relating to our need to co-ordinate and account for the many services the Authority provides to the public.

Creditors
People the Authority owes 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 the Authority is 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 the Authority 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 the Authority treats 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 the Authority's 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 the Authority has 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 the Authority 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 Authority owns or has a right to use. Examples include software licences and brand names like 'Coca'Cola'.

Levies
The money the Authority pays to the Environment Agency (for flood defence and land drainage purposes).

Long-term investments
Those investments which the Authority 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 the Authority's financial performance or position.

Minimum debt repayment or minimum revenue provision
The amount the Authority have to set aside to repay loans. It is set at 4% of our total borrowing.

Non-Domestic Rate (NNDR) income
Business rates, (non-domestic rates or NDR), are a tax on properties which are not used for domestic purposes, such as shops, factories, offices, beach huts and moorings. They are collected by District Councils and distributed amongst the local precepting authorities and Central Government to fund service expenditure.

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 the Authority 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 the Authority 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 the Authority runs.

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 the Authority uses 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 the Authority 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 the Authority 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 the Authority keeps to pay for known future costs.

Provision for credit liabilities
Money the Authority sets 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 the Authority must keep within the Prudential Code, which sets out the principles that local authorities must follow. These include the following.

- Affordability – can the Authority afford to make the repayments?
- Prudence – is the Authority 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
The Authority's 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. The Authority achieves an in-year surplus when our income is higher than our spending.

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

These accounts are also available on the internet at 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.

Lãngüagê Liñè

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