SOMERSET COUNTY COUNCIL

STATEMENT OF ACCOUNTS

2012/13

AUDITED & APPROVED ACCOUNTS

K.B.Nacey CPFA

Director - Finance and Performance

County Hall, Taunton, Somerset TA1 4DY

WWW.SOMERSET.GOV.UK

SOMERSET County Council

Somerset County Council Statement of Accounts

Chief Financial Officer’s introduction

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

Introduction

The annual Statement of Accounts sets out a summary of our financial affairs for 2012/13 and shows our financial position as at 31 March 2013. 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 151.

<u>Important developments this year</u>

Budget Cuts in 2012/13

The Coalition Government’s austerity measures to reduce the national deficit continued to impact hard on Local Government in 2012/13. There was a £10 million (7%) cut in our core revenue funding as outlined within the 2010 Comprehensive Spending Review. However this was partially offset by an unexpected allocation of Council Tax Freeze Grant for a second year. Relatively high inflation rates, significant demographic pressures in both Children’s Social Care and Adult Social Care and ever increasing demand for our services as families and businesses battle the economic downturn all add considerable pressure on to our budgets.

The Government’s other policy to tackle the recession is to generate growth. For Local Government, this includes providing grant funding for capital projects such as building schools and highways. This is welcomed as it significantly reduces the need for the authority to borrow to fund these projects and therefore avoids paying interest and reduces the pressure on the revenue budget.

Southwest One Contract

A litigation process during 2012/13 resulted in the settlement of a contractual dispute between Somerset County Council and Southwest One. Part of this settlement was the reimbursement of Southwest One by Somerset County Council of contract savings which had been given in earlier years and a few elements of some of the services, along with individuals delivering those services being transferred back in house to Somerset County Council.

Those services that are now under the control of SCC are Strategic Procurement, IT Training, most elements of Property Services and Facilities Management. Southwest One continues to deliver elements of finance, facilities management, property services, payroll and technology services to Somerset County Council.

Schools converting to Academy status

During the year Somerset schools have continued to opt to transfer to Academy status. During the year six schools transferred with a further ten transferring early 2013/14 and potentially a further nine during the rest of 2013/14. This has had a significant impact upon our finances and management of services to school, accounting for the marked decrease in our non-current assets, with a corresponding reduction in our reserves. This does not affect our ability to deliver services or the funding allocated to services.

Revenue spending in 2012/13

In February 2012, we agreed our budget for 2012/13 at £327.9 million. This resulted in a band-D council tax of £1,027.30, which is the same as in 2011/12.

The following table shows that our actual spending was £324.8 million against the budget of £327.9 million which includes transfers. These figures are based on service responsibilities, rather than the total cost of providing services (including charges for support services, using assets, and adjustments to show the true cost of providing pensions to employees), which is used in the income and expenditure account on page 46.

Directorate	2012/13 budget £millions	2012/13 actual spending £millions	Difference £millions	Difference %
Adults & Health - Operations	84.2	82.6	-1.6	-1.9
Children & Families - Operations	41.7	42.2	0.5	1.2
Learning Disabilities - Operations	28.5	28.4	-0.1	-0.4
Somerset Waste Partnership	23.7	23.8	0.1	0.4
Adults & Health - Commissioner	22.7	21.3	-1.4	-6.2
Learning & Achievement - Operations	22.0	21.1	-0.9	-4.1
Children & Learning - Commissioning & Schools	38.2	13.4	-24.8	-64.9
Highways & Traffic Management	14.9	15.7	0.8	5.4
Transporting Somerset - Public, FE & Concessionary	13.5	11.3	-2.2	-16.3
Other Direct Services	17.5	15.9	-1.6	-9.1
Support Services	35.6	38.3	2.7	7.6
	342.5	**314.0**	**-28.5**	**-8.3**
Non-service items (central costs, such as bank charges, that cannot be linked to a particular service)	14.1	10.8	-3.3	-23.4
	356.6	**324.8**	**-31.8**	**-8.9**
Transfer to or from (-):				
the carry-forward fund	-29.9	1.3	31.2	
revenue reserves which we have set aside	-4.7	-7.4	-2.7	
the capital fund	3.6	1.3	-2.3	
general reserves	2.3	7.9	5.6	
	327.9	**327.9**	**-**	
Funded by:				
Revenue Support Grant	2.4	3.5	1.1	
Business Rates	118.1	116.8	-1.3	
Council Tax	207.4	207.4	0.0	
	327.9	**327.7**	**-0.2**	

Carry forward fund

Services are allowed to spend up to their approved budgets. In 2012/13, this was £342.5 million. In previous years, council services were allowed to save any amounts they had not spent to use in future years, this is called the ‘carry forward fund’. Services also have other reserves, which they have set aside for certain purposes. In addition, some spending (for items outside our services’ control) is funded from general reserves. For more analysis of the movements within our earmarked reserves see Note 9 in the main Statement of Accounts.

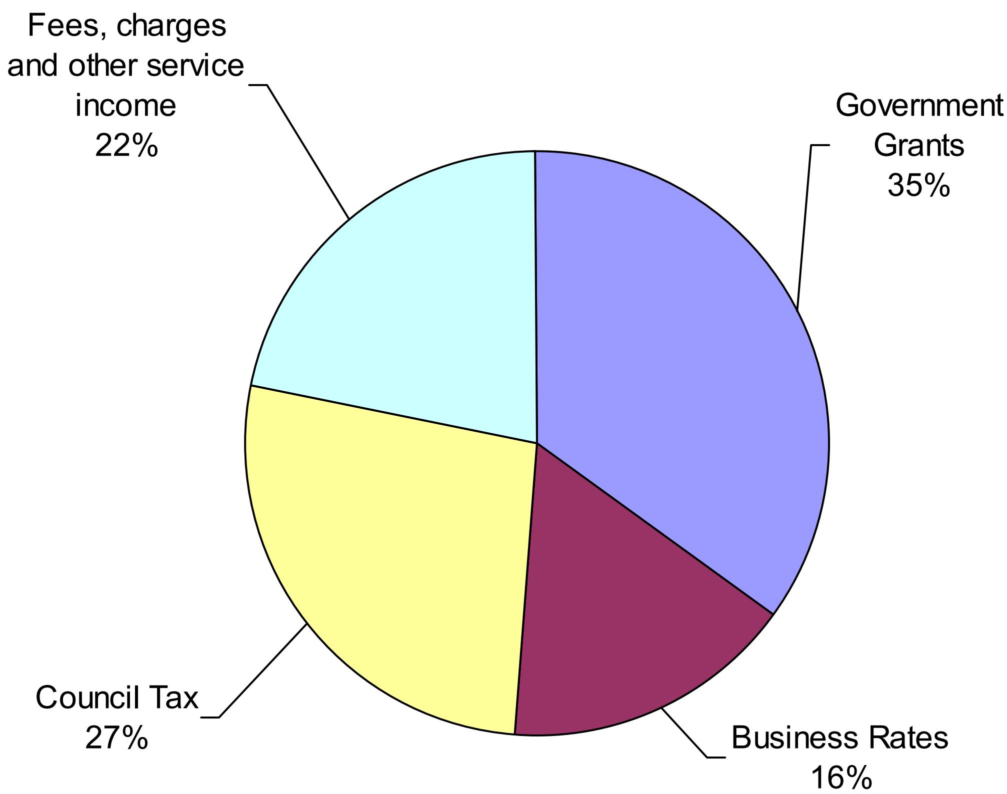
Of the £28.124 million total carried forward, £20.063 million is for individual school budgets and cannot be used for anything else. This is a decrease of £1.496 million over the previous year and is due mainly to the movement of schools to academy status. The other £8.061 million relates to carry forwards for particular services.

Financing

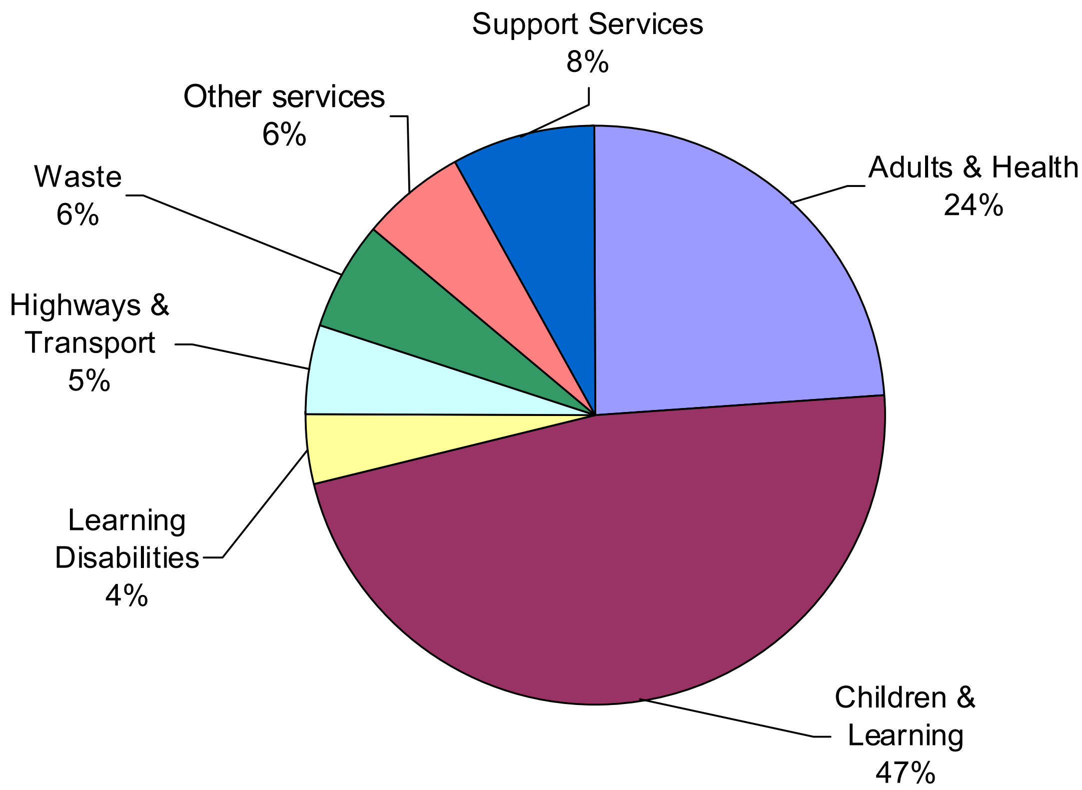
The diagrams below show where our money came from, which services we spent it on and how we spent it. It is important to note that the contribution from the local community through the Council Tax represents just 27% of our funding needs.

Analysis of total revenue spending (£745.9 million)

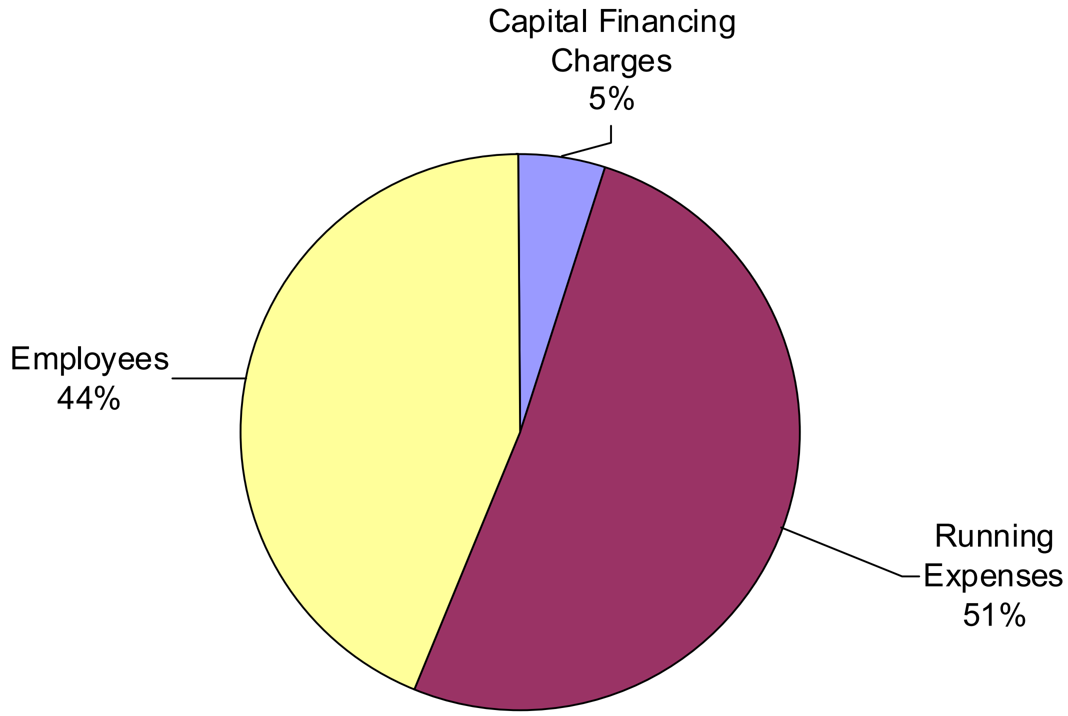
Where the money came from



Which services we spent it on



How we spent this



Capital spending in 2012/13

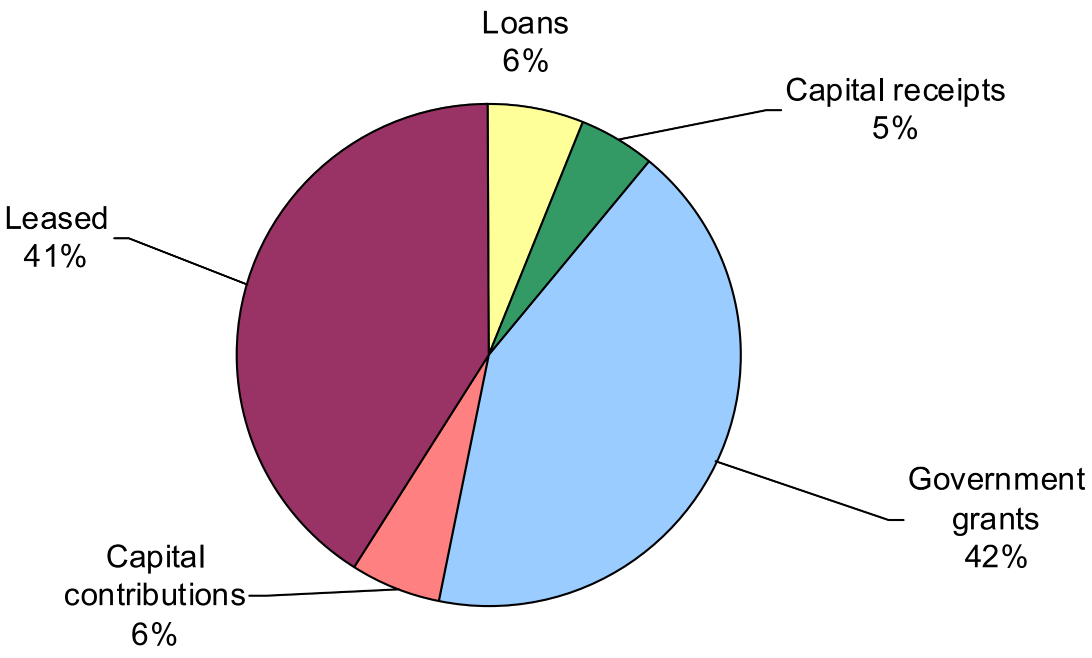
Alongside our day-to-day costs, we spend money on assets such as buildings, roads, vehicles and information and communications technology. This is capital spending. During 2012/13 our capital spending was £118.174m (£56.400m in 2011/12). Of this we spent £82.772m on schools. This included spend on our Building Schools for the Future Project to replace 3 secondary schools in Bridgwater. We spent £28.738m on the county highways and transport infrastructure. The following table shows how we spent this money.

Scheme		2012/13 £millions	£millions
Children and Education Services	Churchfield Primary School	2.844	
	Building Schools for the Future in Bridgwater	52.007	
	Bridgwater Swimming Pool - managed on behalf of Sedgemoor District Council	3.251	
	Taunton Academy	4.736	
	Sky College in Taunton - supporting Special Educational Needs	2.999	
	Improvements to facilities to support Special Educational Needs including Autism	1.578	
	Provison of sufficient school places	3.207	
	Replacement of temporary classrooms	2.215	
	General improvements to schools and other assets associated with the delivery of education	9.935	82.772
Infrastructure	New road schemes to relieve congestion in Taunton	2.509	
	Structural Improvements to bridges	3.092	
	Structural Improvements to roads	20.153	
	Roads Small Improvement Schemes	2.984	
	ecomony		28.738
Resources	Refurbishment of County Hall		3.263
Other	Other projects		3.401
	Total capital spending		118.174

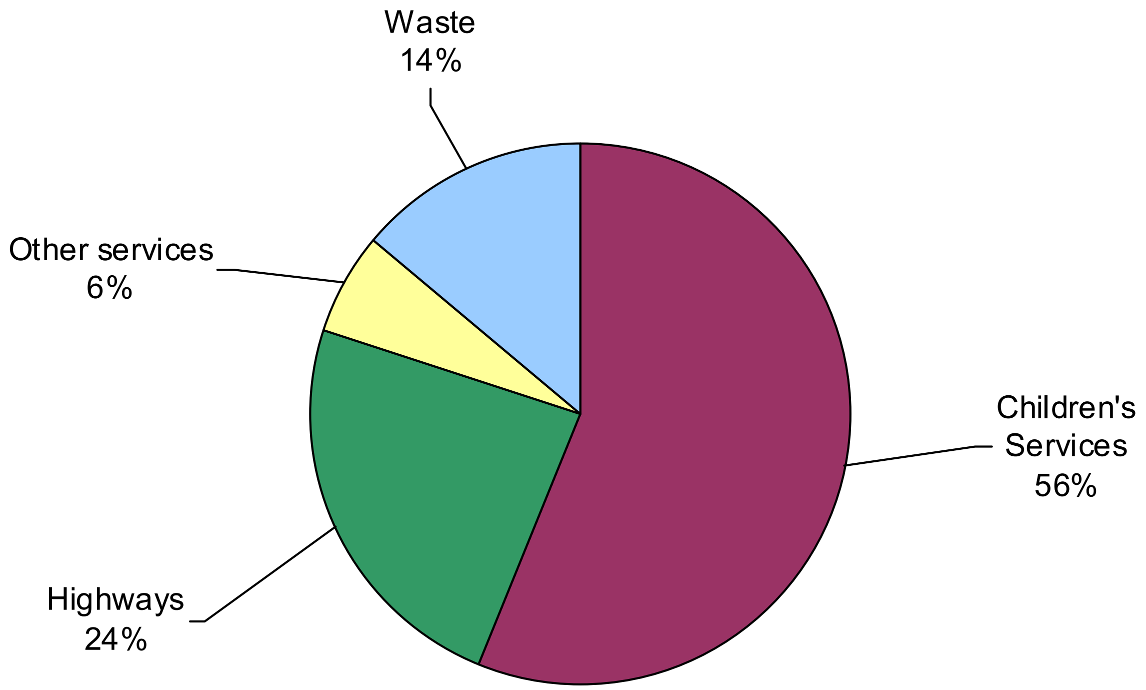
Analysis of total capital spending

During 2012/13, our total capital spending of £118.174 million included £16.935 million on assets we do not own.

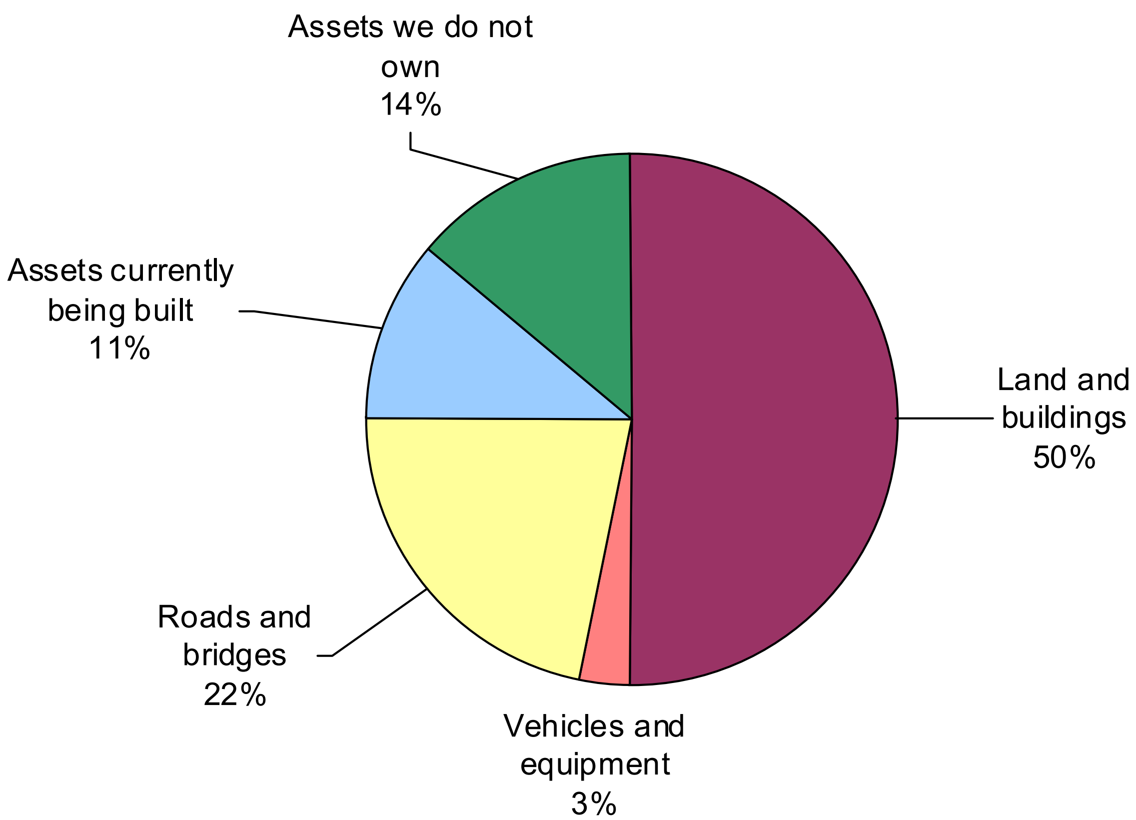
Where the money came from



Which services we spent it on



How we spent this



Borrowing facilities

Under the Prudential Code, we have set an authorised limit against which our external borrowing is monitored and managed. For 2012/13, the total approval was £483 million (next year's approval is £400 million). On 31 March 2013, the amount we owed was £347.8 million (£363.5 million in 2012/13).

On 31 March 2012 £millions	Borrowing	On 31 March 2013 £millions
173.2	Public Works Loan Board (PWLB)	168.2
180.5	Other long-term loans	170.5
9.8	Other organisations investing in the Comfund (note 33)	9.1
363.5		347.8

In line with accounting practice, we must show the 'fair value' of our loans. The fair value of the PWLB loan is £219.061 million at 31 March 2013 (£217.350 million at 31 March 2012). The fair value of the other long-term loans is £227.954 million at 31 March 2013 (£238.981 million at 31 March 2012).

Usable Reserves

On 31 March we had the following reserves available:

On 31 March 2012 (Restated) £millions	Reserves	On 31 March 2013 £millions
14.6	Capital reserves	20.0
17.0	Capital Grants/Contributions Unapplied Reserves	17.6
4.7	Revenue reserves set aside for capital	9.0
17.4	Other revenue reserves which we have set aside	28.2
21.6	Schools' carry-forward fund	20.1
16.1	Services' carry-forward fund	8.0
24.2	General reserves (see the note below)	24.1
115.6		127.0

General reserves represent just 7.3% of the 2012/13 budget. This shows that we need to continue to operate within very strict financial limits.

Looking ahead to 2013/14 and the future

Financial outlook

With the UK economy narrowly avoiding a triple dip recession, and not forecast to improve greatly in the next 3 – 5 years, the financial outlook for the Authority looks set to continue to be difficult. The Local Government settlement for 2013/14 further reduced core funding by £20 million and the indicative allocation for 2014/15 is another £15 million lower again.

Beyond this point, the picture is not known. The Government is currently reviewing spending plans for 2015/16 and will publish national information in June 2013. Detailed information at individual authority level will not be known until much closer to 2015/16. We have therefore taken a prudent view that the funding reduction trend will continue for the foreseeable future.

However, Local Government funding is now less dependent upon Central Government than ever before. New legislation implemented from April 2013 alters the balance of funding with more of Business Rates being retained locally. This therefore enables local authorities to create more income through generating economic growth in their area. In addition, the level of Council Tax Benefit is now decided locally, and therefore local authorities also have greater control over this funding stream. These are covered in more detail below.

Changes to Local Government Funding

Until April 2013, National Non-Domestic Rates (NNDR or Business Rates) were collected by local authorities and paid into the Government's central pool, only for it to then be redistributed back to local authorities as Grant using a complicated formulaic approach. This has now been simplified to some extent with authorities retaining an element thereby paying a smaller proportion into the national pool. This offers an incentive, as authorities will benefit from growth in the local share of Business Rates yield in their area, or be penalised if the business rate yield falls.

Unfortunately that incentive is limited to 25% of the growth, as the balance continues to go to Central Government. However in return, the Government operates a safety net by providing additional funding should an authority's income from business rates fall by more than 7.5%.

Whilst this change is welcomed, it has its own problems. Business Rates income is not static and can vary year-to-year, for a variety of reasons, including new or discontinued businesses, or the result of successful appeals by ratepayers against their rating valuations. Therefore, estimating the level of income generated is very difficult and so passes on the risks of falling income to local authorities. This is particularly relevant in uncertain economic times such as these. Therefore, to protect the authority, we have consciously augmented our levels of reserves

Another significant change introduced by the Government in April 2013 was the localisation of Council Tax Benefits. Previously, residents who meet the Government's criteria were entitled to have all or part of their Council Tax charge paid by the Government. From April 2013, Council Tax Benefits will become discounts that are fully integrated into the Council Tax collection system, with the levels of reductions being decided locally by local authorities as part of their Council Tax-setting process.

This shift in control is again welcomed; however in localising this system, the Government cut the associated funding by 10%. Authorities were then faced with a choice, continue with the current levels of benefits and absorb the 10% loss in income, or redesign their local scheme to mitigate that loss. In addition, the Government prescribed the level of support to be given to certain types of claimants such as those of a Pensionable age or those that were previously entitled to 100% benefit. This effectively left local authorities with little choice but to reduce the benefits available to working age claimants if they were to offset the loss in funding. This is particularly relevant within Somerset which has a higher than average age profile.

The major risk, given the deepening economic crisis, is that the number of claimants increases, and the scheme fails to live within its funding allocation. Furthermore, as this is likely to affect the most vulnerable households, this could lead to reduced Council Tax collection rates and an increase in demand for services.

Tackling the reduction in funding

In order to allow the Council to cope with these pressures and continue to provide the high quality services, we continually challenge the ways in which our services are delivered. We are engaging and consulting with our partners, communities and residents to ensure that we fully understand their needs. We can then redesign our services with new innovative and ambitious ways of working that ensure we deliver effective services that meet the changing needs of our residents.

Now more than ever, future service demands will outstrip the resources available. We will therefore need to continue to improve our efficiency and will need to continue the process of reprioritising our spending. This will lead to reductions in lower priority areas being used to support increases elsewhere, as we develop a robust budget that will protect our core services in the current economic climate and the continuing financial constraints expected in future years.

Economic Growth

As set out above, the Government's focus is to generate economic growth. This must also be Somerset's focus. Through the creation of new businesses, the Council is able to collect additional Business Rate income. We are helping and facilitating this through the expansion of superfast broadband across the region. Through the creation of new homes, the Council is able to collect additional Council Tax income. We are helping and facilitating this through proactive planning and the development of innovative infrastructure solutions. There are also significant benefits for Somerset residents, helping to safeguard jobs, boosting income within their household which in turn is spent within the local economy.

Collaborative Working / Shared Services

Other ways in which we can improve service delivery whilst reducing costs is to work collaboratively with our partners or other public service organisations. This is not new for Somerset. We have been pioneers in this field with the creation of the Somerset Waste Partnership, the South West Audit Partnership and the Southwest One Joint Venture. We are currently finalising plans to merge our Pensions administration team and our Trading Standards service with those of Devon County Council.

Service Cost Recovery Project

The Council is closely scrutinising service expenditure recovered from fees and charges in order to release further resources for investment or savings, and support the Council's wider Change Programme.

The Service Cost Recovery Project will seek to ensure that fees and charges are set and recovered in such a way that recognises the needs of the Council to recover service costs, the value delivered to citizens and the ability of citizens to make payment. It will also challenge the Council's cost base to ensure that income gains can be sustained through more effective income management and through encouraging a more commercial ethos across the Council.

To support the delivery of this project the Council has commissioned PricewaterhouseCoopers LLP (PwC) who will bring considerable experience and a track record of successfully delivering similar projects in other authorities.

It is anticipated that the project will deliver savings in the range £3m - £5m in a full year. Following appropriate consultation and subsequent implementation, it is projected that savings will start to be delivered by the end of 2013/14.

Public Health

The Health and Social Care Act 2012 transferred Public Health responsibilities from the NHS to upper tier and unitary authorities. As a result of this change in responsibility on 1 April 2013 SCC took on new responsibilities and some Public Health Officers transferred to SCC from the NHS. This is a critical step in the transition towards the establishment of a new public health system and gives local authorities opportunities to tailor local solutions to local problems, and to focus health and care services together to improve health and reduce inequalities.

Inspection and audit

We made these accounts available for public inspection (from 1 July to 26 July) so that people who pay Council Tax and rates, and other members of the public, could ask the auditor any questions. This is a legal requirement, but my department will answer questions from anyone with an interest at any time. These accounts have been approved by our Audit Committee on 26 September 2013.

Kevin Nacey CPFA
Director - Finance and Performance
(Chief Financial Officer)
26 September 2013

Statement of Responsibilities

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

Somerset County Council's Responsibilities

The Authority is required to:

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

The Chief Financial Officer's Responsibilities

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

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

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

The Chief Financial Officer has also:

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

The Chief Financial Officer's Declaration

This Statement of Accounts gives a true and fair view of the financial position of Somerset County Council as at 31 March 2013 and its income and spending for the year ending on that date.

Kevin Nacey CPFA
Director – Finance and Performance
(Chief Financial Officer)
Somerset County Council
26 September 2013

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

Opinion on the Council's financial statements

We have audited the financial statements of Somerset County Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Somerset County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council'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 Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council'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 explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Somerset County Council as at 31 March 2013 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

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

Matters on which we report by exception

We report to you if:

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

We have nothing to report in these respects.

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

Respective responsibilities of the Council and the auditor

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

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

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

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Council has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

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

Basis for qualified conclusion

In seeking to satisfy ourselves that the Council has made proper arrangements for challenging how it secures economy, efficiency and effectiveness in its use of resources, we have considered the Ofsted inspection report published in August 2013 which concluded overall that arrangements for the protection of children in the Somerset County Council area are judged to be 'inadequate'.

Qualified conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, with the exception of the matter reported in the basis for qualified conclusion paragraph above, we are satisfied that in all significant respects Somerset County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

Certificate

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

Simon Garlick

Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Hartwell House
55-61 Victoria Street
Bristol BS1 6FT

27 September 2013

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

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of Somerset County Council Pension Fund for the year ended 31 March 2013 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Asset Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Somerset County Council Pension Fund in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council'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 Council'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, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the 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 financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matters

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

Opinion on financial statements

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013: and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Simon Garlick

Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Hartwell House
55-61 Victoria Street
Bristol BS1 6FT

27 September 2013

Annual Governance Statement (2012/13)

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

Responsibility

We are responsible for making sure that we:

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

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

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 the code can be obtained from Martin Gerrish, Strategic Manager – Finance Governance at mgerrish@somerset.gov.uk.

This statement explains how Somerset County Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement of internal control.

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 2013 and up to the date of approval of the Statement of Accounts., naturally evolving to meet the changing Organisational Model

The governance framework

In June 2011 the County Council revised its formal code of corporate governance ensuring it still conforms with guidance provided by CIPFA and SOLACE. This Code was reviewed by the Section 151 Officer in March 2013 and accepted as still fit for purpose. This describes how Somerset County Council discharges its responsibilities for putting in place proper arrangements for the governance of its affairs, incorporating the six core principles identified by CIPFA/SOLACE. The framework we have in place to ensure we adhere to the code is described in more detail below.

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

Somerset County Council's Strategy is set out in the Somerset County Plan 2012-2013 (refreshed July 2012), SCC Business Plan 2012/13 and the Medium Term Financial Plan (MTFP), a set of strategic plans to shape and direct how we manage ourselves overall. The Somerset County Plan sets out our ambitions for the next year, and the Business Plan, the main activities and projects we plan to undertake during the next year to deliver them. The Business Plan will also include measures and targets to enable us to monitor progress. The MTFP will show how the Council continues to take difficult financial decisions to reflect government spending reforms and the economic downturn whilst still maintaining effective services for the public.

Funding to carry out all these activities is agreed through the Medium Term Financial Plan (MTFP) which is a three year rolling plan, updated annually, with annual budgets confirmed formally each year through control totals published in the MTFP papers. This covers both revenue and capital investment. We continue to strengthen the MTFP process by looking at the links between resources and the outcomes we achieved, and by providing appropriate information on the processes of dividing resources, decision-making and monitoring. During 2012/2013 an increased number of MTFP savings options were proposed and developed through our Change Programme, providing a substantial contribution to balancing the budget for 2013/2014 and future years.

At the moment, we report to Cabinet on our overall performance four times a year. Individual services are responsible for regularly monitoring their progress towards achieving the activities they have set out in their plans. They must regularly report to their management teams and provide a summary report for Cabinet leads as part of the current reporting timetable. These reports, incorporating our County Plan Dashboard show:

- how well we are achieving the ambitions in the County Plan and Business Plan activities;
- our performance against top targets;

The County Plan Performance Monitoring Outturn report reviews our performance over the previous year, highlighting some practical examples of our achievements. Scrutiny Committee reviews our performance and delivery of the plan's priorities and activities, receiving the outturn report on an annual basis. (All these key documents are publicised on our website)

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

Somerset County Council now has a Corporate Consultation and Customer Planning Team with one full time post specifically devoted to consultation. The team interprets legislation for the whole authority, monitors consultations carried out by all services, and seeks to standardise consultation methods as much as possible to prevent duplication and ensure the public have every opportunity to influence the decision making process. The Council has strong links with the voluntary sector community to make sure that the work we are doing is having the desired effect within all of Somerset's communities.

The Communications Team help Somerset County Council communicate with all sections of the community in Somerset, primarily through the media but also using other tools such as marketing and the Council's website. Services are also making increasing use of social media such as Facebook and Twitter, which was well-received during the flooding incidents experienced last year. The County Council also ran a number of Local Choice Events across the County, as a way of developing a different approach to working with our communities.

The Communications Team work with staff across the Council to develop proactive plans to promote service improvements and changes, including launching the new Consultation Toolkit to provide clear guidance for Somerset County Council staff on how to carry out effective consultations.

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

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

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

The Council's Constitution sets out transparently and comprehensively the rules controlling our business, including the Council's "executive arrangements", committee structure, codes of conduct, contract standing orders, financial regulations and council / cabinet schemes of delegation. We continue to refine and monitor our decision making processes and related constitutional arrangements to ensure that they are robust, consistent and fit for purpose.

The Council agreed changes to the Constitution on a regular basis in 2012/2013, to reflect legislative changes particularly in respect of revised standards and access to information requirements. By the time of the May 2013 election, all key elements of the Constitution will have being reviewed and updated since the start of 2012/2013.

The New Officer Scheme of Delegation was implemented with effect from June 2012, to reflect the new senior officer structure and Operating Model.

We review our financial management arrangements on an annual basis to ensure that they conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). A review carried out in April/ May 2013 confirmed that during the financial year 2012/13 the County Council complied with all these requirements.

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 new Standards Committee came into effect from 1st July 2012 in response to changing legislative requirements, to: -

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

The Standards Committee recommended a new member Code of Conduct and Members Access to Information Protocol. Full Council duly adopted the Code of Conduct at its July 2012 meeting.

A Corporate Governance Board involving key officers involved in all areas of governance and chaired by the Section 151 Officer maintains an overview of governance issues and promotes high standards of behaviour by officers. It is responsible for making sure that we have, and follow, an effective governance framework which is in line with our vision. In particular the group is responsible for ensuring that key elements of the Council's governance framework such as risk management and fraud prevention are regularly reviewed and updated.

Managers are responsible for making sure members of staff keep to policies, procedures, laws and regulations and for making sure that we include risk management in our work.

There is an Officer Code of Conduct setting out clear expectations and standards, and this is supported by employee policies such as whistleblowing, grievances, harassment and bullying.

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

To achieve this, the County Council:

- ensures that its constitutional arrangements provide for effective Cabinet and Council decision-making defining the roles of members and officers in these processes
- ensures that the decision-makers are provided with complete information necessary for them to make balanced and informed decisions
- ensures that the Council's Scrutiny Committee performs all of the statutory roles required of it
- takes as many of its decisions in public as possible.

In addition to these arrangements, the Leader established during 2012/2013 the Cabinet Policy Advisory Committee as a cross-party grouping of non-executive members to advise the Cabinet on policy and key decisions prior to decisions being taken. This additional member input into the democratic process was designed to complement the Council's formal scrutiny arrangements by bringing a different perspective to member input into these key governance processes.

The Cabinet, as a result of a recommendation by senior management, has the overall responsibility to approve our risk-management strategy and policy statement, and to make sure all our staff are aware of it.

We also make sure that all our staff are fully aware of risk issues through induction and management training and by including a risk register in every service and project plan, which are now run through our Change Programme. The MTFP process included a risk analysis for each saving proposed, and at an overall level.

We have a Strategic Risk Management Group which meets regularly to co-ordinate an ongoing programme for risk management including the significant corporate risks of health and safety and business continuity. We have a Corporate Risk Register of our significant risks, with a very senior officer as "risk owner", detailed mitigating actions to minimise the impact of each risk and regular reporting back to the Audit Committee and Senior Leadership Team on our progress.

One of the key areas of risk for the County Council is its partnership with Southwest One which has been in place for the last four years. Because of its size and complexities, the risks relating to this relationship are continuously monitored.

Key members of the Senior Leadership Team met weekly as a Design Authority in order to ensure governance from the Change Programme was robust as the organisation moved towards the new Operating Model.

To manage the large programmes of change projects which are taking place in the County Council has put in place a Corporate Programme Review Board which meets monthly to consider performance and risk.

The Audit Committee met regularly throughout the year to carry out its role. Its functions are modelled on those recommended by CIPFA, and it has a direct reporting link to Full Council. The Chair of the Audit Committee met the Leader and the Chief Executive as required when he wished to raise any issues. The Audit Committee reviewed a number of areas of potential high impact risk including Business Continuity, ICT disaster recovery and health and safety.

Our Internal Auditors, (the South West Audit Partnership), and our external auditors, work together to review and provide opinions each year on the control framework and governance and how valid the annual accounts are. The external auditors issue an annual report giving an opinion on whether the accounts give a true and fair view of the financial position of the Council. Other inspection agencies also look at specific areas of our business.

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

The County Council has a personal development review process in place for managers to discuss with each member of staff their capacity and capability to carry out their current and future roles. Managers are responsible with staff for arranging appropriate training and development opportunities. HR run a number of tailored courses for officers, and there are also informal training sessions run by Community Governance.

As part of the transition to the new Operating Model, senior officers within the authority undertook independent and externally run assessment centre, testing them against the Key Competencies that they will need in order to be effective in their new roles.

Members training provision was enhanced in 2012/2013 with a new Member Training and Development Strategy adopted. Additional training is provided on a needs basis, particularly when the member sits on certain committees. Further support to members is provided through Community Governance and includes IT support, officer support and accommodation. A cross-party member group was established to examine how to improve the effectiveness of councillors, and discuss how to provide good support for them.

A significant amount of work was undertaken towards the end of 2012/2013 in advance of the elections in May 2013. A full induction programme, particularly aimed at new members, is being developed, and from this will emerge an annual training programme for members together with the option of developing personal development plans for a proportion of the membership of the Council.

Review of effectiveness

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

The Full Council has approved a Code of Governance for the County Council and a process for assessing the effectiveness of the governance framework on an annual basis. The Governance Board, led by the Section 151 Officer, carried out the review for the 2012/13 statement. The review took into account:

- Internal Audit's annual opinion report for 2012/13;
- the effectiveness of internal audit
- external auditors' comments;
- comments from other review agencies and inspectorates;
- assurance reviews carried out by each major service area
- a review by the Governance Board of the evidence available corporately to support the six Core Principles ;
- reports to the Audit Committee relating to risk management and key risks; and
- the review of effectiveness of the role of the Section 151 officer.

The results of the review were provided to management and key members to consider, and details to be included in the Annual Accounts were considered by the Audit Committee on 13th June 2013.

As a result of this review of the effectiveness of the governance framework by management and lead members, we have drawn up an Action Plan to address points arising, and to ensure continuous improvement of the system is in place.

Significant governance issues

During the year, the South West Audit Partnership brought a number of control issues to the attention of the Audit Committee. The opinion of the Internal Auditors was that, whilst there are identified controls in place, there were some areas of the control framework (key financial systems, governance) where controls needed to operate more effectively to ensure the achievement of objectives. The Audit Partnership "did not identify any areas of significant corporate concern" and overall "reasonable" assurance has been given. Areas reported back to the Committee included:-

- Operational and schools audits where there is a need for some establishments and services to implement better local management around evidencing controls.

- Some exchequer system findings where controls could be further improved in conjunction with South West One (and where additional resource is being targeted).

The Internal Auditors "continue to find the Senior Management of Somerset County Council to be supportive of SWAP findings and responsive to the recommendations made. In the past couple of years where the organisation has been going through a period of radical change management have been open in approaching SWAP regarding areas where they perceive potential problems, as evidenced by the Non-Opinion Reviews."

As a result of moving to the new Operating Model and moving away from hierarchical Directorate Management Teams, there has been a temporary transitional reduction in the effectiveness of escalation procedures in relation to risk management processes. Management were aware of this issue and decided to benchmark our performance using the ALARM risk management survey. This has highlighted that we need to review our core risk management processes.

We also found from the annual review of governance that we need to carry out a number of actions during the next financial year to further strengthen the control framework. These include:

- Continued review of the Constitution in light of potential changes to the organisation arising as a result of the May 2013 election.
- Providing induction and training to all members of the Council according to their needs and roles.
- A review of our forward-looking working arrangements with South West One now that some services have been returned to the County Council.
- A review of the Operating Model governance arrangements now that the Model has been delivered.
- A formal review of all our governance documents, and increased publicising of our arrangements.
- Continuing to review our existing partnership and commissioning arrangements, and particularly considering the new delivery models for some services.
- A review of our risk management processes and increased frequency of reporting to senior management

In June and July 2013, the County Council was inspected by OFSTED in relation to our arrangements for the protection of children. Although this inspection was carried out after the end of the financial year in question, clearly the findings related wholly or in part to 2012/2013. Whilst acknowledging that there had been evidence of improvement in some

areas, and that the County Council has now made positive changes at senior leadership level in this service, OFSTED rated the County Council as “Inadequate”.
Responding to the findings of this report, and continuing our Improvement Programme in this area will clearly be a priority in 2013/2014.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation on a regular basis through out the year.

There are a number of circumstances that are likely to impact on the governance and constitution of the County Council in 2013/14. The continued decline in financial resources available to the County Council will inevitably impact on our service delivery to the residents and visitors in Somerset, and the reforming of the County Council was undertaken with this in mind. Following the Service Review process, we will also be delivering some services in different and innovative ways, often in partnership with other organisations, and will need to ensure that suitable governance is maintained in all cases.

We will monitor the progress of the Change Programme and the output from PwC’s programme of work, and will aim to ensure that our staff and members continue to have the capacity and skills they need to work

There will be a number of key challenges to how we work in the future. From April 2013, the County Council has taken statutory responsibility for Public Health from the NHS. WE continue to develop and deliver major projects which will have a major impact on the Council in 2013/2014, including the A303 project, the enabling the development of a new power station at Hinckley Point, delivering high speed broadband across Somerset, the Local Enterprise Partnership and the SMART Office project. We are also continuing our response and improvements to the OFSTED inspection.

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

Sheila Wheeler
Chief Executive
September 2013

John Osman
Leader of the Council
September 2013

Statement of Accounting Policies

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

1 General

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

We have produced these accounts on the basis of CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2012/13, based on International Financial Reporting Standards.

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

2 The difference between Capital and Revenue

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

3 Accruals of Income and Expenditure

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

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

- Supplies are recorded as expenditure when they are used. Where there is a gap between the date supplies are received and their use and the value is assessed as significant, they are carried as inventory on the Balance Sheet, at the lower of cost and net realisable value;

- Works are charged as expenditure when they are completed, before which they are carried as work in progress on the Balance Sheet;

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

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

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 Discontinued Operations

Income and expenditure directly related to Discontinued Operations are shown separately on the face of the Income and Expenditure Account, with comparatives for the service for the previous year.

6 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.

7 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

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

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

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

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 and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off;
- amortisation of intangible fixed assets attributable to the service;
- lease rentals directly attributable to the service.

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

9 Employee Benefits

Benefits Payable during Employment

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

Termination Benefits

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

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

Post Employment Benefits

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

1) The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE);

2) The Local Government Pension Scheme, administered by Somerset County Council.

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

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

Details on the Local Government Pension Scheme can be found in note 52 on page 115.

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 made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

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

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

12 Government Grants and Contributions (Including Donated Assets)

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

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

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

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

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

13 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.

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 of the Authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the Property, Plant 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, or for administrative purposes, and that will be used during more than one financial year. However, we charge certain lower value items that have an expected life of more than one year (for example, library books) to revenue in the year we buy them.

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

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

Recognition

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

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

Measurement

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

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	Existing Use Value (EUV)

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

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

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

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

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

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

Depreciation

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

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	5-7 years
Software	5 years
Software licences	25 years
Community assets	10 years

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

Componentisation

Where a high value asset, for example a building, includes a number of components with significantly different asset lives, we are required to identify and depreciate the components separately from the main asset. This additional analysis is only required for assets that we deem 'significant', so we are required to set a materiality threshold to assist with the identification of such assets. For 2012/13, we have set a materiality threshold of £1.5 million for individual assets and a significance level for separate components of 20% of the whole asset's original cost. Consideration of componentisation is only required for assets that meet these two criteria. This is the minimum requirement (as defined by the Code) but services may choose to apply componentisation for assets below this threshold if it assists with asset planning.

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

Impairment

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

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

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

16 Accounting for Schools

Non-Current Assets

There are five main types of state school that all receive funding from the local authority or direct from Central Government. When considering whether these schools are an 'asset' to the authority and therefore require reporting within our accounts as a non-current asset (PPE), the Code requires us to consider the substance and economic reality of our relationship with the school not merely its legal form.

Having considered the 'substance over form' principal, we have accounted for the schools non-current assets for the five main types of schools as follows:

Community schools

The local authority owns the freehold for all of our Community schools, and has a significant role in the running of the school. Accordingly, the Community schools have been recognised as property, plant and equipment in our Balance Sheet. Any subsequent expenditure incurred in relation to Community Schools (that meets the recognition criteria set out in IAS16) is capitalised and added to the value of the school.

Foundation schools

These schools are funded by the local authority, but the schools are owned and managed by the governing body or charitable foundation. Accordingly, the 10 Foundation schools currently residing within the authority's boundary have not been recognised in our Balance Sheet. Any subsequent expenditure incurred in relation to Foundation Schools is expensed through the Comprehensive Income and Expenditure Statement as revenue expenditure funded from capital under statute (REFCUS) in the year it is incurred (see Accounting Policy 22 for further details). As the authority retains no ownership or control over this type of school, there is no historic valuation data available and we believe that the cost incurred for a formal valuation now would not be commensurate with the benefits of the information.

Voluntary aided (VA) schools

These schools are owned by a charity (often a religious organisation such as a church) that also manages the school and employs the staff. The local authority provides support services and partially funds these schools, but as the ownership and control of these schools lies with the charity the 39 VA schools currently residing within the authority's boundary have not been recognised in our Balance Sheet. Any subsequent expenditure incurred in relation to VA Schools is expensed through the Comprehensive Income and Expenditure Statement as revenue expenditure funded from capital under statute (REFCUS) in the year it is incurred (see Accounting Policy 22 for further details). As the authority retains no ownership or control over this type of school, there is no historic valuation data available and we believe that the cost incurred for a formal valuation now would not be commensurate with the benefits of the information.

Voluntary controlled (VC) schools

As with VA schools these schools are generally owned by a charity (although the local authority does retain the freehold for some of the school playing fields), but unlike VA schools the authority runs the school and employs the staff. As the substance of the arrangement indicates that control of these schools lies with the Authority, the VC schools have been recognised as property, plant and equipment in our Balance Sheet. Any subsequent expenditure incurred in relation to VC Schools (that meets the recognition criteria set out in IAS16) is capitalised and added to the value of the school.

Academies

Academies are independently managed schools which operate outside the control of the local authority. Funding is provided directly by Central Government. The authority owns the freehold for these schools, and issues a long lease to the Academy Trust for the land and buildings. Under IAS17, we have reviewed the leasehold arrangement with the Academy Trusts and have identified it to be a 'finance' lease type arrangement. Accordingly, we have derecognised from our Balance sheet the 28 schools that have converted to academy status within the authority's boundary. Any subsequent expenditure incurred in relation to Academies is expensed through the Comprehensive Income and Expenditure Statement as revenue expenditure funded from capital under statute (REFCUS) in the year it is incurred (see Accounting Policy 22 for further details). As the authority retains no ownership or control over this type of school, there is little or no current historic valuation data available and we believe that the cost incurred for a formal valuation now would not be commensurate with the benefits of the information.

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 our accounts and charged against the relevant schools ISB allocation. Any unspent allocations are carried on our Balance Sheet at year-end as the Schools General Fund within the Usable Reserves section.

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

17 Disposals and Non-current Assets Held for Sale

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

If assets no longer meet the criteria to be classified as 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.

18 Sale and Leaseback transactions

Where a transaction involves the authority selling an asset and leasing it back, the lease classification must be determined as this influences the subsequent accounting treatment. Where we have determined that the leaseback is in substance a finance lease we are required to:

- Derecognise the existing property, plant and equipment asset;
- Recognise the leased asset measured in accordance with the Code (i.e. at the lower of the fair value of the asset or the present value of the minimum lease payments);
- Recognise a corresponding finance lease liability; and

- Defer any gain on disposal of the asset (where the sale proceeds are greater than the fair value of the asset) over the life of the leaseback.

Where we have determined that the leaseback is in substance an operating lease we are required to:

- Recognise the lease payments in expenses over the life of the lease in accordance with the Code;
- Treat the property, plant and equipment as an asset held for sale, and de-recognise it at the appropriate moment; and
- Recognise the sale proceeds in accordance with the Code.

19 Provisions

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

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

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

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

Landfill Allowance Schemes

Landfill allowances, whether allocated by DEFRA or purchased from another Waste Disposal Authority (WDA) are recognised as current assets and are initially measured at fair value. Landfill allowances allocated by DEFRA are accounted for as a Government grant.

After initial recognition, allowances are measured at the lower of cost and net realisable value.

As landfill is used, a liability and an expense are recognised. The liability is discharged either by surrendering allowances or by payment of a cash penalty to DEFRA (or by a combination). The liability is measured at the best estimate of the expenditure required to meet the obligation, normally the market price of the number of allowances required to meet the liability at the reporting date. However, where some of the obligation will be met by paying a cash penalty to DEFRA, that part of its liability is measured at the cost of the penalty.

20 Contingent Liabilities

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

Contingent liabilities are not recognised in the Balance Sheet but are disclosed in Note 49.

21 Reserves

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

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

22 Revenue Expenditure Funded from Capital Under Statute (REFCUS)

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

23 Private Finance Initiative (PFI) and Similar Contracts

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

Prior to derecognising the asset through the Income and Expenditure account as part of the gain/loss on disposal, the asset used under the contract is recognised at the lower of its fair value or the present value of the minimum lease payments. The asset is then matched by a corresponding liability for making payments in relation to the acquisition of the asset used under the contract to the scheme operator to pay for the capital investment.

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

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement;
- finance cost – an interest charge of 9.82% on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease); and
- life-cycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to property, plant and equipment when the relevant works are eventually carried out.

24 Value Added Tax

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

25 Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Service Reporting Code of Practice 2012/13 (SeRCOP)*. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

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

We charge the cost of management and administration to Corporate and Democratic Core and front-line services in line with the SeRCOP. The costs are charged directly where appropriate, with the rest of the costs being shared in various suitable ways, as set out in the following table:

Support service	Method of charging
Facilities management	- All based on floor area
Central despatch	- All based on floor area
Design and print	- All based on floor area
Repairs and maintenance	- Charged in line with actual spending
Property services	- Land management & Wyvern costs all to non-distributed costs (NDC) - Specific academy charges direct to relevant school area - County Farms based on unitary charge - R&M fees payable to SWOne on unitary charge - Remaining costs charged based on number of properties
Information and communication technology and central phones	- Based on actual software and head count
Financial services	- Based on directorate gross expenditure budget
Debt collection	- Based on actual usage
Fleet management	- All based on the amount used by services
HR Services	- All based on staff numbers
Committee services	- Based on directorate gross expenditure budget
Somerset Direct	- All based on calls made to Somerset Direct
Central lease charges	- Charged in line with actual spending on behalf of the service

26 Inventories

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

27 Foreign Currency Translation

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

28 Events after the Balance Sheet Date

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

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

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

29 Carbon Reduction Commitment (CRC) Scheme

The Authority is required to participate in the Carbon Reduction Commitment Energy Efficiency Scheme. This scheme is currently in its introductory phase which will last until 31 March 2014. The authority is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the authority is recognised and reported in the costs of the authority's services and is apportioned to services on the basis of energy consumption. Any allowances purchased prospectively by the authority are treated as current intangible assets in the Balance Sheet and carried at cost.

30 Heritage Assets

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

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

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

Heritage assets (other than operational heritage assets) are measured at a valuation in line with FRS30. The standard states that the valuation may be made by any method that is appropriate and relevant. For the majority of our collection, neither cost nor valuation information can be obtained (as the cost of obtaining the valuations would be disproportionate in terms of the benefit derived). Where items have been purchased cost information is available. We are of the opinion that we will be unable to revalue these purchased items with sufficient reliability (at a cost commensurate to users of the financial statements).

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

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

Movement in Reserves Statement

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

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

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

Movement in Reserves Statement
For the years ended 31 March 2012 & 2013

	Note	Schools General Fund Balance (Restated) £m	Other General Fund Balance (Restated) £m	Earmarked Reserves £m	Capital Receipts Reserve £m	Capital Grants & Contributions Unapplied (Restated) £m	Total Usable Reserves (Restated) £m	Unusable Reserves (Restated) £m	Total Authority Reserves £m
Balance as at 1 April 2011		**22.924**	**15.067**	**23.809**	**7.708**	**15.093**	**84.601**	**391.131**	**475.732**
Movement in Reserves during 2011/12									
Surplus or deficit (-) on provision of services		-	-166.791	-	-	-	-166.791		-166.791
Other Comprehensive Income and Expenditure	13/52	-	-	-	-	-	-	-169.252	-169.252
Total Comprehensive Income and Expenditure		**-**	**-166.791**	**-**	**-**	**-**	**-166.791**	**-169.252**	**-336.043**
Adjustments between accounting basis & funding basis under regulations	8	-	188.912	-	6.902	1.976	197.790	-197.790	-
Net Increase/Decrease (-) before transfers to Earmarked Reserves		-	**22.121**	-	**6.902**	**1.976**	**30.999**	**-367.042**	**-336.043**
Transfers to/from (-) Earmarked Reserves	9	-1.365	-12.985	14.350	-	-	-	-	-
Increase/Decrease (-) in Year		**-1.365**	**9.136**	**14.350**	**6.902**	**1.976**	**30.999**	**-367.042**	**-336.043**
Balance as at 31 March 2012 carried forward		**21.559**	**24.203**	**38.159**	**14.610**	**17.069**	**115.600**	**24.089**	**139.689**
Movement in Reserves during 2012/13									
Surplus or deficit (-) on provision of services		-	-66.288	-	-	-	-66.288		-66.288
Other Comprehensive Income and Expenditure	13/52	-	-	-	-	-	-	45.144	45.144
Total Comprehensive Income and Expenditure		**-**	**-66.288**	**-**	**-**	**-**	**-66.288**	**45.144**	**-21.144**
Adjustments between accounting basis & funding basis under regulations	8	-	71.803	0.000	5.362	0.529	77.694	-77.694	-
Net Increase/Decrease (-) before transfers to Earmarked Reserves		**-**	**5.515**	**-**	**5.362**	**0.529**	**11.406**	**-32.550**	**-21.144**
Transfers to/from (-) Earmarked Reserves	9	-1.496	-5.637	7.133	-	-	-	-	-
Increase/Decrease (-) in Year		**-1.496**	**-0.122**	**7.133**	**5.362**	**0.529**	**11.406**	**-32.550**	**-21.144**
Balance as at 31 March 2013		**20.063**	**24.081**	**45.292**	**19.972**	**17.598**	**127.006**	**-8.461**	**118.545**

Balance Sheet as at 31 March 2013

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

1 April 2011 (Restated) £millions	31 March 2012 (Restated) £millions	Balance Sheet as at 31st March 2013	31 March 2013 £millions	Notes
1,107.458	892.384	Property, Plant & Equipment	921.093	25
1.174	1.295	Heritage assets	1.311	31
1.566	2.272	Intangible Non-Current assets	1.917	26
8.190	5.594	Long term investments	4.788	33
25.978	23.772	Long term debtors	28.279	33
1,144.366	**925.317**	**Long term assets**	**957.388**	
114.508	71.512	Short term Investments	195.899	33
7.880	3.697	Assets held for sale	1.327	28
0.459	0.602	Inventories	0.363	35
53.098	44.044	Short term debtors	38.438	36
-	-	Intangible Current Asset	0.013	37
50.632	148.323	Cash and cash equivalents	34.886	44
226.577	**268.178**	**Current Assets**	**270.926**	
-86.920	-66.427	Short term creditors	-78.792	38
-6.436	-5.625	Revenue Grants/Contributions Receipts in Advance	-1.910	41
-12.344	-23.459	Capital Grants/Contributions Receipts in Advance	-19.058	41
-4.277	-4.701	Provisions	-3.407	40
-8.854	-9.814	Short term borrowing	-9.082	33
-	-15.127	Long term borrowing repayable < 1 year	-	33
-4.989	-0.908	Overdraft	-3.045	44
-123.820	**-126.061**	**Current Liabilities**	**-115.294**	
-0.768	-0.798	Provisions	-0.138	40
-357.886	-342.882	Long term borrowing repayable > I year	-342.857	33
-394.495	-570.086	Other long term liabilities	-639.307	39
-2.983	-0.781	Revenue Grants/Contributions Receipts in Advance	-0.015	41
-15.259	-13.198	Capital Grants/Contributions Receipts in Advance	-12.158	41
-771.391	**-927.745**	**Long term liabilities**	**-994.475**	
475.732	**139.689**	**Net Assets**	**118.545**	
		Usable reserves		
22.924	21.559	General Fund - Schools	20.063	9/42
15.067	24.203	General Fund - Other	24.081	42
23.809	38.159	Earmarked Reserves - set aside for revenue purposes	45.292	9/42
7.708	14.610	Capital Receipts Reserve	19.972	42
15.093	17.069	Capital Grants/Contributions Unapplied Reserve	17.598	42
84.601	**115.600**		**127.006**	
		Unusable reserves		
251.670	182.999	Revaluation Reserve	216.524	43
516.307	390.119	Capital Adjustment Account	351.154	43
26.031	23.934	Deferred Capital Receipts	22.907	43
-394.074	-564.657	Pensions Reserve	-589.459	43
1.756	2.829	Collection Fund Adjustment Account	0.230	43
-10.559	-11.135	Accumulated Compensated Absences Adjustment Account	-9.817	43
391.131	**24.089**		**-8.461**	
475.732	**139.689**	**Total Reserves**	**118.545**	

KBNacey

Kevin Nacey CPFA, Director – Finance and Performance
26 September 2013

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

The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line ‘Adjustments Between Accounting Basis and Funding Basis Under Regulations’.

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

Comprehensive Income and Expenditure Statement

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

31 March 2012				31 March 2013			
£millions (Restated) Expenditure	**£millions (Restated) Income**	**£millions (Restated) Net**	**Comprehensive Income and Expenditure Statement for the year ended 31 March 2012**	**£millions Expenditure**	**£millions Income**	**£millions Net**	**Notes**
2.497	-1.542	0.955	Central services to the public	3.528	-1.646	1.882	10
25.228	-3.777	21.451	Cultural and related services	16.240	-2.345	13.895	10
43.937	-18.422	25.515	Environmental and regulatory services	49.834	-19.316	30.518	10
7.534	-3.748	3.786	Planning services	9.478	-2.578	6.900	10
409.830	-302.451	107.379	Education and children's services	360.777	-250.399	110.378	10
61.490	-8.028	53.462	Highways and transport services	61.829	-9.141	52.688	10
15.284	-0.666	14.618	Housing services	11.783	-0.623	11.160	10
201.226	-72.089	129.137	Adult social care	212.902	-72.378	140.524	10
4.561	-0.065	4.496	Corporate and democratic core	7.097	-0.005	7.092	10
0.033	-19.241	-19.208	Non-distributed costs	-5.015	-	-5.015	10
771.620	**-430.029**	**341.591**	**Surplus (-) / Deficit on Continuing Operations**	**728.453**	**-358.431**	**370.022**	
223.635	-16.250	207.385	Other operating expenditure	77.616	-15.865	61.751	12/16
-	-5.810	-5.810	Reversal of Icelandic investment impairment	-	-0.670	-0.670	6
-	-	-	Procurement Transformation Sunk Cost	5.461	-	5.461	6
28.898	-3.729	25.169	Financing and investment income and expenditure	34.124	-3.824	30.300	14
1.428	-1.078	0.350	Surplus or deficit of discontinued operations	0.503	-0.525	-0.022	5/10
-	-401.894	-401.894	Taxation and non-specific grant income	-	-400.554	-400.554	15
1,025.581	**- 858.790**	**166.791**	**Surplus (-) or Deficit on Provision of Services**	**846.157**	**-779.869**	**66.288**	
		-4.082	Surplus (-) or Deficit on revaluation of non-current assets			-47.021	13
		173.334	Actuarial gains (-) / losses on pension assets/liabilities			1.877	52
		169.252	**Other Comprehensive Income and Expenditure**			**-45.144**	
		336.043	**Total Comprehensive Income and Expenditure**			**21.144**	

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.

2011/12 (Restated) £millions		2012/13 £millions	Notes
166.791	Net surplus (-) or deficit on the provision of services	66.288	
-249.153	Adjustments to net surplus or deficit on the provision of services for non cash movements	-150.931	**45**
54.968	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	53.279	**45**
-27.394	Net cash flows from Operating Activities	**-31.364**	**45**
-72.578	Investing Activities	127.491	**46**
-1.800	Financing Activities	19.447	**47**
-101.772	**Net increase (-) or decrease in cash and cash equivalents**	**115.574**	
45.643	**Cash and cash equivalents at the beginning of the reporting period**	**147.415**	
147.415	**Cash and cash equivalents at the end of the reporting period**	**31.841**	**44**

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

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

Notes to the core financial statements

Note 1: Prior-period adjustments

Deferred Capital Receipts

The Code of Practice (England and Wales) on Local Authority Accounting 2012/13 requires us to post to a Deferred Capital Receipts Reserve any sales proceeds not payable to the authority on disposal of our non-current assets. 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.

In previous years, our accounts have correctly recognised the cash settlement as a transfer to the Capital Receipts Reserve, but have disclosed the deferred receipts as part of the Capital Adjustment Account (CAA) rather than as a Deferred Capital Receipts Reserve (DCRR). As both the CAA and the DCRR are reported as Unusable Reserves there is no impact to our accounts other than the recognition of an additional unusable reserve on our Balance Sheet. The 1 April 2011 and 31 March 2012 Balance Sheet has therefore been restated to correct the omission.

The effects of the restatement are as follows.

Changes to the Balance Sheet (page 44)

Opening 1 April 2011 Balance Sheet

	2011/12 Statements £millions	Adjustments Made £millions
Capital Adjustment Account	536.668	-26.031
Deferred Capital Receipts	-	26.031

Opening 31 March 2012 Balance Sheet

	2011/12 Statements £millions	Adjustments Made £millions
Capital Adjustment Account	405.714	-23.934
Deferred Capital Receipts	-	23.934

Devolved Formula Capital Grant (DFCG)

Devolved Formula Capital Grant (DFCG) is a formula grant allocated to all schools each year, for funding the priority capital needs of their buildings. It has come to our attention this year that although the grant had been spent on school related capital expenditure the accounting treatment of the DFCG income and associated expenditure resulted in those items being reported in our previous accounts as building related 'revenue' rather than 'capital' expenditure. This resulted in unspent balances being carried on the Balance Sheet as usable revenue rather than usable capital reserves

Due to the value of the DFCG income and expenditure, we have decided to account for this over-sight as a prior-period adjustment and restated our previous year comparatives in line with accounting regulations. The 1 April 2011 and 31 March 2012 Balance Sheets and 2011/12 comparative figures have thus been restated in this years' accounts to correct the misclassification.

The effects of the restatement are as follows.

Changes to the Balance Sheet (page 44)

Opening 1 April 2011 Balance Sheet

	2011/12 Statements £millions	Adjustments Made £millions
General Fund - Schools	29.457	-6.533
Capital Grants Unapplied Reserve	8.560	6.533
Capital Adjustment Account	536.668	5.670
Revaluation Reserve	257.340	-5.670

Opening 31 March 2012 Balance Sheet

	2011/12 Statements £millions	Adjustments Made £millions
General Fund - Schools	25.653	-4.094
Capital Grants Unapplied Reserve	12.975	4.094
Capital Adjustment Account	405.714	8.339
Revaluation Reserve	191.338	-8.339

Changes to the Income & Expenditure Statement (page 46)

	2011/12 Statements £millions	Adjustments Made £millions
Education and children's services	109.751	-2.372
Taxation and non-specific grant	-401.597	-0.297
Surplus (-) or Deficit on revaluation of non-current assets	-6.751	2.669

Changes to the Movement in Reserves Statement (page 42)

Movement in Reserves Statement - Usable Reserves

	Statement of Accounts 2011/12	**Restatement**
	£millions	**£millions**
Movement in Reserves during 2011/12		
Surplus or Deficit (-) on the Provision of Services	-169.460	2.669
Adjustments between the accounting basis and the funding basis under regulations	200.459	-2.669

Movement in Reserves Statement - Unusable Reserves

	Statement of Accounts 2011/12	**Restatement**
	£millions	**£millions**
Movement in Reserves during 2011/12		
Other Comprehensive Income & Expenditure	-166.583	-2.669
Adjustments between the accounting basis and the funding basis under regulations	-200.459	2.669

Changes to the Cash Flow Statement (page 47)

	As previously stated 31 March 2012	Restatement	Restated Balance as at 31 March 2012
	£millions	£millions	£millions
Net surplus (-) or defecit on the provision of services	169.460	-2.669	166.791
Adjustments to net surplus or deficit on the provision of services for non-cash movements	-249.153	-	-249.153
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	54.968	-	54.968
Net cash flows from Operating Activities	-24.725	-2.669	-27.394
Investing Activities	-75.247	2.669	-72.578
Financing Activities	-1.800	-	-1.800
Net increase (-) or decrease in cash and cash equivalents	**-101.772**	**-**	**-101.772**
Cash and cash equivalents at the beginning of the reporting period	**45.643**	**-**	**45.643**
Cash and cash equivalents at the end of the reporting period	**147.415**	**-**	**147.415**

Revenue Grants Receipts In Advance

The Code of Practice (England and Wales) on Local Authority Accounting 2012/13 requires us to separately disclose in a note to the accounts any grants that were received in the current financial year where conditions are in place to state they relate to a future year. In previous years the Authority has included these within the revenue creditor receipt in advance balances.

The effects of the restatement are as follows.

Changes to the Balance Sheet (page 44)

Opening 1 April 2011 Balance Sheet

	2011/12 Statements £millions	Adjustments Made £millions
Current Liabilities		
Short term creditors	-96.339	9.419
Revenue Grants/Contributions Receipts in Advance	-	-6.436
Long term liabilities		
Revenue Grants/Contributions Receipts in Advance	-	-2.983

31 March 2012 Balance Sheet

	2011/12 Statements £millions	Adjustments Made £millions
Current Liabilities		
Short term creditors	-72.833	6.406
Revenue Grants/Contributions Receipts in Advance	-	-5.625
Long term liabilities		
Revenue Grants/Contributions Receipts in Advance	-	-0.781

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

The Authority has yet to adopt the following accounting standards:

- IAS19 Employee Benefits (June 2011 Amendments)

The amendments to IAS 19 will provide users of the financial statements with a much clearer picture of our current and future obligations resulting from the provision of defined benefit plans, and how these obligations will effect our financial position, financial performance and cash flows.

In summary, the main changes that would have affected the Comprehensive Income and Expenditure Account, had the Standard been adopted for the 2012/13 accounts are:

- Removal of the expected return on assets, to be replaced by a net interest cost comprising interest income on the assets and interest expense on the liabilities, which are both calculated with reference to the discount rate;

- Some labelling changes to the Profit and Loss charge e.g. “Service cost” now includes what was previously described as the “Current Service Cost” plus the “Past Service Cost” plus any “Curtailments” plus any “Settlements”;

- Administration expenses are now accounted for as expenditure through the Income & Expenditure Account; previously we made a deduction to the actual and expected returns on assets.

The changes set out above are effective for accounting periods beginning on or after 1 January 2013 so do not affect the disclosures for 2012/13. The table below shows the Income & Expenditure figures that would have been reported had the Standard applied from 1st April 2012.

	As at 31st March 2013 £millions
Service Cost	32.150
Net Interest on the defined liability (asset)	25.208
Administration expenses	0.073
Total	**57.431**
Actual return on Scheme assets	87.873

- IAS1 Presentation of Financial Statements – Other Comprehensive Income (June 2011 Amendments

The amendments to IAS1 are only intended to address presentational issues surrounding ‘items of other comprehensive income’, so there is no impact on either the 2012/13 or 2013/14 financial statements for the authority.

- IFRS7 Financial Instruments Disclosures – Offsetting Financial Assets and Liabilities (December 2011)

This standard requires the authority to disclose information to enable users of its financial statements to evaluate the effect or potential effect of netting arrangements on the authority's financial position. This includes the effect or potential effect of rights of set-off associated with the authority's recognised financial assets and recognised financial liabilities.

We do not anticipate this amendment having a material impact on our financial statements.

- IAS12 Income Taxes (December 2010 Amendments)

The aim of the amendments is to provide a practical solution for jurisdictions where entities currently find it difficult and subjective to determine the expected manner of recovery for investment property that is measured using the fair value model in IAS 40 *Investment Property*.

We do not anticipate this amendment having a material impact on our financial statements.

Note 3: Critical Judgements in Applying Accounting Policies

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

The critical judgements made in these Statement of Accounts are:

- There is a high degree of uncertainty about future levels of funding for local government. However, the Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.

- It is considered that our numismatic, metalwork and artwork collections have an indefinite life and therefore depreciation will not be applied to these heritage assets held by the Council. As a result, Heritage Assets will be reviewed for impairment on an annual basis. Should any new classes of heritage assets be identified, asset lives will be considered and depreciation applied accordingly if appropriate.

- The Authority has reviewed its relationships with other entities and has concluded that we still only have PLUSS Ltd which would fall under the Group Accounts criteria.

- We have also reviewed our use of provisions to ensure that we have accounted for circumstances which meet the criteria in the appropriate way. We have taken a robust approach to ensure that we have correctly accounted for these.

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

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

The items in the Balance Sheet at 31 March 2013 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 £2,021,194.61 for every year that useful lives had to be reduced.
Provisions	The Authority has made a provision of £300,000 in relation to the Carbon Emissions scheme which started this year.	The liability is based on a best estimate of the expenditure required to meet the obligation, normally at the market price of the number of allowances required. A 10% increase in this figure would change the liability by £30,000.
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. We instruct Barnett Waddingham, a firm of actuaries, to make these sensitive judgements on our behalf.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £27,461,000.
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 £690,727.03.	If our assumptions are incorrect by 10% the increase or decrease in our impairment would be approximately £69,000.
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. <u>Assumptions within the accrual</u> The teachers pay is based on actual salaries and actual days carried forward. The only assumption made is that 99.5% of teachers continue in their job or leave the authority. The other 0.5% are 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 is applied to all staff for a period of 4 years before re-sampling. 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. 3) We have reviewed which services staff left from and have decided to resample to ensure the accrual assumption is an accurate reflection of our staff base.	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. 2) SAP's limitation on Payroll reporting means we cannot show the actual rates paid per person. Some staff will not pay superannuation or have different national insurance rates to the average. The value of the accrual may be over/under estimated. 3) 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.

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.

Note 5: Discontinued Operations

2011/12 Total Expenditure £millions	2011/12 Turnover (Income) £millions	2011/12 Surplus (-) or deficit £millions	Discontinued operations	2012/13 Total Expenditure £millions	2012/13 Turnover (Income) £millions	2012/13 Surplus (-) or deficit £millions
0.560	-0.610	-0.050	Wyvern Nursery Group	0.503	-0.525	-0.022
0.560	**-0.610**	**-0.050**	**Surplus (-) or deficit on trading activities**	**0.503**	**-0.525**	**-0.022**

The Wyvern Nursery Group previously provided childcare places for children of our employees, other public sector employees and members of the local community. These services were transferred to Wyvern Group Ltd in year and the trading unit ceased operating from the 1st December 2012. The above disclosure shows the 2011/12 results for Wyvern Nursery group for comparability purposes. The 2011/12 values shown on the face of the Comprehensive Income and Expenditure Account are the results for SCS Catering and Cleaning Trading Units which ceased trading in 2011/12.

Note 6: Material Items of Income and Expense

Shown separately on the face of the Comprehensive Income and Expenditure Statement, we have amended our Icelandic impairment this year with a more favourable return on the money that has been witheld in Iceland. We have therefore reduced our impairment by £0.670m. This has reduced our liability in the Balance Sheet and increased the value of our investments.

As a result of the settlement of a dispute between SCC and Southwest One a cost of £5.461m has been incurred in 2012/13. This relates to payments made in prior years for services to be received in future years. These services will no longer be receivable in future years, so the total amount of the deferred payment has been recognised as an expense during 2012/13 in line with accounting regulations.

Note 7: Events after the Balance Sheet Date

Ten schools converted to Academy status between 1st April 2013 and 30th September 2013. This will mean that in 2013/14 our Balance Sheet will reduce by £31.105 million in respect of the assets that are transferring with them. For the six schools that converted on 1st April or 1st May the value of their reserves, which will transfer with them, are estimated to be £0.877 million. For the four schools that transferred on 1st September, it is not possible to give a reasonable estimate of what their reserve balances will be.

Note 8: Adjustments between Accounting Basis and Funding Basis under Regulation

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

Adjustments between accounting basis and funding basis under regulations for the year ended 31 March 2013	**General Fund - Schools & Other £millions**	**Capital Receipts Reserve £millions**	**Capital Grants & Contributions Unapplied £millions**	**Total Usable Reserves £millions**	**Unusable Reserves £millions**	**Total Authority Reserves £millions**
Adjustments involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement						
Charges for depreciation and impairment of non current assets	43.371	-	-	43.371	-43.371	-
Impairment of current held for sale assets	0.666	-	-	0.666	-0.666	-
Revaluation losses on property, plant and equipment	5.951	-	-	5.951	-5.951	-
Amortisation of intangible assets	0.325	-	-	0.325	-0.325	-
Capital grants and contributions	-42.480	-	42.480	0.000	0.000	-
Reduction of Icelandic Investment Impairment	-0.670	-	-	-0.670	0.670	-
Revenue expenditure funded from capital under statute	2.487	-	14.448	16.935	-16.935	-
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	71.947	-	-	71.947	-71.947	-
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement						
Statutory provision for the financing of capital investment	-22.847	-	-0.126	-22.973	22.973	-
Capital expenditure charged against the General Fund	-0.354	-	-	-0.354	0.354	-
Adjustments involving the Capital Receipts Reserve:						
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-11.077	11.077	-	-	-	-
Use of the capital receipts reserve to finance new capital expenditure	-	-6.464	-	-6.464	6.464	-
Contribution from the capital receipts reserve towards administration costs of non current asset disposals	0.289	-0.289	-	-	-	-
Interest received on Rural Regeneration capital receipts reserve	-0.011	0.011	-	-	-	-
Principal repayments transferred to the capital receipts reserve	-	1.027	-	1.027	-1.027	-
Adjustments involving the Capital Grants Unapplied Reserve:						
Use of the capital grants unapplied reserve to finance new capital expenditure	-	-	-56.273	-56.273	56.273	-
Adjustments involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	49.322	-	-	49.322	-49.322	-
Employer's pension contributions and direct payments to pensioners payable in the year	-26.397	-	-	-26.397	26.397	-
Adjustments involving the Collection Fund Adjustment Account:						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	2.599	-	-	2.599	-2.599	-
Adjustment involving the Accumulating Compensated Absences Adjustment account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	-1.318	-	-	-1.318	1.318	-
Total adjustments between accounting basis & funding basis under regulations	**71.803**	**5.362**	**0.529**	**77.694**	**-77.694**	**-**

Adjustments between accounting basis and funding basis under regulations for the year ended 31 March 2012	General Fund - Schools & Other (Restated) £millions	Capital Receipts Reserve £millions	Capital Grants & Contributions Unapplied (Restated) £millions	Total Usable Reserves (Restated) £millions	Unusable Reserves (Restated) £millions	Total Authority Reserves £millions
Adjustments involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement						
Charges for depreciation and impairment of non current assets	51.980	-	-	51.980	-51.980	-
Impairment of current held for sale assets	0.036	-	-	0.036	-0.036	-
Revaluation losses on property, plant and equipment	1.102	-	-	1.102	-1.102	-
Movement in the market value of investment properties	-	-	-	-	-	-
Amortisation of intangible assets	0.305	-	-	0.305	-0.305	-
Capital grants and contributions	-42.280	-	42.280	0.000	-	-
Movement in the donated assets account	-	-	-	-	-	-
Reduction of Icelandic Investment Impairment	-5.810	-	-	-5.810	5.810	-
Revenue expenditure funded from capital under statute	3.281	-	3.720	7.001	-7.001	-
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	219.559	-	-	219.559	-219.559	-
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement						
Statutory provision for the financing of capital investment	-21.414	-	-	-21.414	21.414	-
Capital expenditure charged against the General Fund	-1.602	-	-	-1.602	1.602	-
Adjustments involving the Capital Receipts Reserve:						
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-13.139	13.139	-	-	-	-
Use of the capital receipts reserve to finance new capital expenditure	-	-7.121	-	-7.121	7.121	-
Contribution from the capital receipts reserve towards administration costs of non current asset disposals	0.154	-0.154	-	-	-	-
Interest received on Rural Regeneration capital receipts reserve	-0.012	0.012	-	-	-	-
Principal repayments transferred to the capital receipts reserve	-	1.026	-	1.026	-1.026	-
Adjustments involving the Capital Grants Unapplied Reserve:						
Use of the capital grants unapplied reserve to finance new capital expenditure	-	-	-44.024	-44.024	44.024	-
Adjustments involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	23.835	-	-	23.835	-23.835	-
Employer's pension contributions and direct payments to pensioners payable in the year	-26.586	-	-	-26.586	26.586	-
Adjustments involving the Collection Fund Adjustment Account:						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	-1.073	-	-	-1.073	1.073	-
Adjustment involving the Accumulating Compensated						
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	0.576	-	-	0.576	-0.576	-
Total adjustments between accounting basis & funding basis under regulations	**188.912**	**6.902**	**1.976**	**197.790**	**-197.790**	**-**

Note 9: 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 2012/13.

	Balance at 31 March 2011 (Restated) £millions	Transfers Out 2011/12 (Restated) £millions	Transfers In 2011/12 (Restated) £millions	Net Movement 2011/12 (Restated) £millions	Balance at 31 March 2012 £millions	Transfers Out 2012/13 £millions	Transfers In 2012/13 £millions	Net Movement 2012/13 £millions	Balance at 31 March 2013 £millions
General Fund:									
Operating Accounts	-0.331	-0.273	0.578	0.305	-0.026	-0.174	1.217	1.043	1.017
Economic Development Fund	2.302	-0.801	0.009	-0.792	1.510	-0.049	0.509	0.460	1.970
Capital Fund	3.639	-1.005	0.600	-0.405	3.234	-0.102	3.417	3.315	6.549
Invest to Save Fund	0.480	-0.480	-	-0.480	-	-	0.480	0.480	0.480
Self Financing Fund	0.400	-0.400	-	-0.400	-	-	0.400	0.400	0.400
Pensions Equalisation	0.747	-0.145	0.004	-0.141	0.606	-0.132	0.002	-0.130	0.476
Adult Social Care Capacity Planning Reserve	1.684	-	3.806	3.806	5.490	-2.564	1.967	-0.597	4.893
Public Health	-	-	-	-	-	-	0.083	0.083	0.083
Carers Pooled Budget	-	-	-	-	-	-	0.122	0.122	0.122
UC Equalisation Reserve	2.137	-1.500	0.976	-0.524	1.613	-5.902	7.000	1.098	2.711
LATS Earmarked Reserve	0.153	-0.153	0.145	-0.008	0.145	-0.145	0.145	-	0.145
Hinkley Project	0.644	-	0.279	0.279	0.923	-0.585	-	-0.585	0.338
Hinkley DCO Decision	-	-	0.144	0.144	0.144	-0.144	-	-0.144	-
National Grid	-	-	0.114	0.114	0.114	-0.114	0.121	0.007	0.121
Somerset Drug & Alcohol	-	-	0.141	0.141	0.141	-	0.366	0.366	0.507
Learning Disabilities	-	-	0.300	0.300	0.300	-0.300	-	-0.300	-
Dickinson Papers EMR	-	-	0.016	0.016	0.016	-0.016	0.008	-0.008	0.008
Superfast Broadband	-	-	0.017	0.017	0.017	-0.017	0.038	0.021	0.038
SALIX - Env Reg	0.056	-0.056	0.032	-0.024	0.032	-0.032	-	-0.032	-
Change Programme	-	-	-	-	-	-0.233	4.500	4.267	4.267
LAA Performance Reward	-	-	-	-	-	-0.179	0.641	0.462	0.462
Safety Camera Partnership	2.241	-2.241	-	-2.241	-	-	-	-	-
SWP - WDA	0.234	-0.322	0.791	0.469	0.703	-0.615	-	-0.615	0.088
Environment Commuted Sums Reserve	0.832	-	0.172	0.172	1.004	-	0.137	0.137	1.141
Museums - Silver Collection/ Bequests	0.043	-	0.012	0.012	0.055	-	0.024	0.024	0.079
Records Bequest	0.043	-	0.002	0.002	0.045	-	0.001	0.001	0.046
Insurance Fund Reserve	4.315	-	1.037	1.037	5.352	-	0.509	0.509	5.861
Youth Bank	0.088	-0.034	0.001	-0.033	0.055	-0.010	-	-0.010	0.045
Central Schools Budget - Compact	-	-	-	-	-	-	3.745	3.745	3.745
Trust Funds	0.008	-0.002	-	-0.002	0.006	-0.002	-	-0.002	0.004
BSF Bridgwater Equaliation Reserve	-	-	-	-	-	-	0.707	0.707	0.707
Repairs and Maintenance Fund (inc BMIS)	0.565	-	0.078	0.078	0.643	-	0.285	0.285	0.928
Directorate Budget Carry Forwards	3.529	-7.916	20.424	12.508	16.037	-16.998	9.022	-7.976	8.061
Total excluding School Balances	23.809	-15.328	29.678	14.350	38.159	-28.313	35.446	7.133	45.292
Balances held by schools under a scheme of delegation	22.924	-23.232	21.867	-1.365	21.559	-21.559	20.063	-1.496	20.063
Total	**46.733**	**-38.560**	**51.545**	**12.985**	**59.718**	**-49.872**	**55.509**	**5.637**	**65.355**

Note 10: Analysis of our spending on services

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

2011/12 (Restated) Spending less income £millions		2012/13 Total spending £millions	Total income £millions	Spending less income £millions
	Central services to the public			
0.264	Registration of births, deaths and marriages	1.226	-0.960	0.266
0.032	Cost of elections	-	-	-
0.204	Emergency planning	0.353	-0.147	0.206
-0.208	Local land charges	0.038	-0.235	-0.197
-	Grants (including citizens advice bureaus)	0.836	-	0.836
0.771	Coroner's court	0.771	-	0.771
-0.108	Other court services	0.304	-0.304	-
0.955		**3.528**	**-1.646**	**1.882**
	Cultural and related services			
10.534	Culture and heritage	3.514	-0.670	2.844
2.111	Open spaces	2.781	-0.626	2.155
1.549	Recreation and sport	1.742	-0.044	1.698
0.050	Tourism	0.020	-0.010	0.010
7.207	Library service	8.183	-0.995	7.188
21.451		**16.240**	**-2.345**	**13.895**
	Environmental services			
-0.290	Agricultural services	0.604	-0.500	0.104
0.124	Coast protection	0.039	-	0.039
0.052	Flood defence	0.382	-0.048	0.334
0.122	Community safety - safety services	0.170	-0.035	0.135
0.219	Community safety - crime reduction	0.642	-0.008	0.634
2.072	Regulatory services	2.682	-0.663	2.019
-1.687 *	Waste collection	16.835	-17.845	-1.010 *
10.264	Waste disposal	17.804	-0.423	17.381
-0.060	Trade waste	0.039	-0.039	-
14.699	Recycling	10.637	0.245	10.882
25.515		**49.834**	**-19.316**	**30.518**
	Planning and development services			
-0.066	Planning policy	1.643	-0.450	1.193
0.007	Environmental initiatives	0.249	-0.263	-0.014
1.700	Economic development	4.487	-1.087	3.400
0.671	Development control	0.782	-0.055	0.727
0.056	Economic research	0.268	-0.215	0.053
0.012	Business support	0.766	-0.430	0.336
1.406	Community development	1.283	-0.078	1.205
3.786		**9.478**	**-2.578**	**6.900**
	Education services			
7.978	Early Years (formerly nurseries)	30.439	-16.686	13.753
-7.749	Primary schools	149.903	-133.408	16.495
23.382	Secondary schools	76.100	-67.804	8.296
11.701	Special schools	20.542	-18.374	2.168
4.447	Services to young people	4.164	-0.410	3.754
22.142	Other school-related education functions	25.873	-9.987	15.886
61.901		**307.021**	**-246.669**	**60.352**
113.608		**386.101**	**-272.554**	**113.547**

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

Note 10 (continued)

2011/12 (Restated) Spending less income £millions		2012/13 Total spending £millions	Total income £millions	Spending less income £millions
	Children's social care			
14.934	Service strategy inc commissioning	16.861	-1.318	15.543
23.622	Children looked after	28.128	-0.703	27.425
3.326	Familty support services	3.762	-0.454	3.308
1.057	Youth justice	1.934	-0.874	1.060
0.082	Children and young people's safety	0.154	-0.119	0.035
0.078	Asylum seekers	0.045	-0.100	-0.055
2.379	Other children and family services	2.872	-0.162	2.710
45.478		**53.756**	**-3.730**	**50.026**
	Highways and transport services			
5.539	Transport, planning, policy and strategy	8.135	-2.345	5.790
1.542	Highways structural maintenance	1.959	-0.058	1.901
16.719	Capital charges relating to construction	18.870	-1.752	17.118
7.598	Environment safety & routine maintenance	9.902	-1.665	8.237
4.166	Street lighting	4.207	-0.018	4.189
2.391	Managing traffic and road safety	1.958	-0.329	1.629
-0.187	Parking	1.585	-1.604	-0.019
13.994	Public transport	12.738	-1.370	11.368
1.700	Winter maintenance	2.475	-	2.475
53.462		**61.829**	**-9.141**	**52.688**
	Housing services			
14.520	Supporting people	11.735	-0.623	11.112
0.098	Other housing	0.048	-	0.048
14.618		**11.783**	**-0.623**	**11.160**
	Adult social care			
0.123	Service strategy	0.114	-	0.114
62.132	Older people	99.812	-32.484	67.328
11.641	Adults with physical disabilities	13.397	-1.792	11.605
43.099	Adults with learning disabilities	72.457	-21.378	51.079
9.782	Adults with mental-health needs	11.955	-1.407	10.548
2.360	Other adult services	15.167	-15.317	-0.150
129.137		**212.902**	**-72.378**	**140.524**
	Corporate and democratic core			
1.902	Democratic representation and management	1.857	-	1.857
2.594	Corporate management	5.240	-0.005	5.235
4.496		**7.097**	**-0.005**	**7.092**
	Non-distributed costs			
-19.208	(we cannot share between services)	-5.015	-	-5.015
341.591	**Total continuing services**	**728.453**	**-358.431**	**370.022**
0.350	**Total discontinued services -** Note 5	0.503	-0.525	-0.022
341.941	**Total spending on services**	**728.956**	**-358.956**	**370.000**

Note 11: 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 Directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

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

Directorate Income and Expenditure 2012/13

	Adults & 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	71.861	15.698	3.977	5.837	59.860	157.233
Government grants	2.745	34.427	0.000	1.596	218.164	256.932
Total Income	**74.606**	**50.125**	**3.977**	**7.433**	**278.024**	**414.165**
Employee expenses	17.839	49.929	28.934	5.625	194.788	297.115
Other operating expenses	160.572	73.816	3.486	28.764	125.493	392.131
Support Service Recharges	13.198	11.048	6.363	3.173	5.197	38.979
Total operating expenses	**191.609**	**134.793**	**38.783**	**37.562**	**325.478**	**728.225**
Net cost of services	**117.003**	**84.668**	**34.806**	**30.129**	**47.454**	**314.060**

Directorate Income and Expenditure 2011/12

	Adult Social Care £ millions	Learning Disabilities £ millions	Environment £ millions	Safeguarding & Care £ millions	Schools & Early Years (Restated) £ millions	Other Direct Services £ millions	Total £ millions
Fees, charges & other service income	66.738	4.007	33.074	1.567	22.135	51.683	179.204
Government & non-government grants	-	0.111	4.184	1.031	236.498	47.524	289.348
Total Income	**66.738**	**4.118**	**37.258**	**2.598**	**258.633**	**99.207**	**468.552**
Employee expenses	16.032	28.906	15.667	20.075	186.261	59.000	325.941
Other operating expenses	128.076	3.777	84.161	21.202	73.981	101.044	412.241
Support Service Recharges	9.047	1.119	1.287	10.436	0.598	6.732	29.219
Total operating expenses	**153.155**	**33.802**	**101.115**	**51.713**	**260.840**	**166.776**	**767.401**
Net cost of services	**86.417**	**29.684**	**63.857**	**49.115**	**2.207**	**67.569**	**298.849**

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

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

2011/12 (Restated) £ millions	Reconciliation to Net Cost of Services in Comprehensive Income & Expenditure Statement	2012/13 £ millions
298.849	Cost of Service in Service Analysis	**314.060**
-11.632	Add services not included in main analysis	5.164
54.374	Add amounts not in management reports but included in I&E	50.798
-	Remove amounts reported to management not included in Comprehensive Income & Expenditure Statement	-
341.591	**Net Cost of Services in Comprehensive Income & Expenditure Statement**	**370.022**

Reconciliation to Subjective Analysis

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

2012/13

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	157.233	-	19.470	-0.525	14.659	190.837	10.319	201.156
Surplus or deficit on associates and joint ventures	-	-	-	-	-	-	-	-
Interest and investment income	-	-	-	-	-	-	3.824	3.824
Income from council tax	-	-	-	-	-	-	322.967	322.967
Government grants and contributions	256.932	-	-	-	3.056	259.988	77.587	337.575
Total Income	**414.165**	**0.000**	**19.470**	**-0.525**	**17.715**	**450.825**	**414.697**	**865.522**
Employee expenses	297.115	4.870	-1.318	-	14.132	314.799	-	314.799
Other service expenses	392.131	0.294	9.287	-5.474	42.562	438.800	15.077	453.877
Support service recharges	38.979	-	-	-	-38.979	-	-	-
Depreciation, amortisation and impairment	-	-	67.248	-	-	67.248	-0.670	66.578
Interest payments	-	-	-	-	-	-	34.124	34.124
Precepts & levies	-	-	-	-	-	-	0.605	0.605
Loss on revaluation of current assets held for sale	-	-	-	-	-	-	0.666	0.666
Gain or Loss on disposal of fixed assets	-	-	-	-	-	-	61.161	61.161
Total operating expenses	**728.225**	**5.164**	**75.217**	**-5.474**	**17.715**	**820.847**	**110.963**	**931.810**
Surplus or deficit on the provision of services	**314.060**	**5.164**	**55.747**	**-4.949**	**0.000**	**370.022**	**-303.734**	**66.288**

2011/12

Reconciliation to Subjective Analysis	Service Analysis (Restated) £ millions	Services not in analysis £ millions	Not reported to management £ millions	Not included in CIES £ millions	Allocation of recharges £ millions	Net cost of services (Restated) £ millions	Corporate amounts £ millions	Total (Restated) £ millions
Fees, charges & other service income	179.204	-20.011	3.951 -	1.078	-	162.066	1.078	163.144
Surplus or deficit on associates and joint ventures	-	-	-	-	-	-	-	-
Interest and investment income	-	-	-	-	-	-	3.729	3.729
Income from council tax	-	-	-	-	-	-	303.751	303.751
Government grants and contributions	290.320	-	-	-	-	290.320	97.846	388.166
Total Income	**469.524**	**-20.011**	**3.951**	**-1.078**	**-**	**452.386**	**406.404**	**858.790**
Employee expenses	325.941	-	0.576	-	5.942	332.459	-	332.459
Other service expenses	412.916	-31.643	-1.426	-1.428	23.277	401.696	1.235	402.931
Support service recharges	29.219	-	-	-	-29.219	-	-	-
Depreciation, amortisation and impairment	-	-	59.525	-	-	59.525	-5.810	53.715
Interest payments	-	-	-	-	-	-	28.898	28.898
Precepts & levies	-	-	-	-	-	-	0.968	0.968
Loss on revaluation of current assets held for sale	-	-	-	-	-	-	0.036	0.036
Gain or Loss on disposal of fixed assets	-	-	-	-	-	-	206.574	206.574
Total operating expenses	**768.076**	**-31.643**	**58.675**	**-1.428**	**-**	**793.680**	**231.901**	**1025.581**
Surplus or deficit on the provision of services	**298.552**	**-11.632**	**54.724**	**-0.350**	**-**	**341.294**	**-174.503**	**166.791**

Note 12: Other Operating Expenditure

2011/12 £millions		2012/13 £millions
206.574	(Gain)/losses on the disposal of non-current assets	61.161
0.036	Loss on the revaluation of current assets held for sale	0.666
-0.219	(Surplus) or deficit from trading activities (see note 16)	-0.681
	Levies:	
0.599	- Environment Agencies	0.600
0.117	- Devon and Severn IFCA	0.121
0.070	- Magistrates Courts	0.066
0.182	- South West Councils	-0.182
0.026	Other operating expenditure	-
207.385		**61.751**

The loss on disposal of non-current assets during 2012/13 was mainly due to:

- 6 schools converting to Academy status during 2012/13 which resulted in a combined loss of £19.547 million.
- Our new PFI schools (Chilton Trinity, Elmwood and Robert Blake) being transferred to the Bridgwater Education Trust during 2012/13, which resulted in an additional loss of £48.781 million (see note 30 for further details).

Note 13: Surplus or deficit on revaluation of fixed assets

2011/12 (Restated) £millions		2012/13 £millions
-7.134	Revaluations gains credited to the Revaluation Reserve	-46.928
3.052	Impairment losses charged to the Revaluation Reserve	2.848
-4.082		-44.080

Note 14: Financing and Investment Income and Expenditure

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

2011/12 £millions		2012/13 £millions
16.878	Interest payable and similar charges	16.952
12.020	Pensions interest cost and expected return on pensions assets	17.172
-3.729	Interest receivable and similar income	-3.824
25.169		**30.300**

Note 15: Taxation and Non-Specific Grant Income

2011/12 (Restated) £millions		2012/13 £millions
-204.325	Council Tax income	-204.883
-99.426	National Non-Domestic Rates	-118.084
-55.863	Non-ringfenced government grants	-35.107
-42.280	Capital grants and contributions	-42.480
-401.894		**-400.554**

Note 16: Trading Operations

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

2011/12 Total Expenditure £millions	2011/12 Turnover (Income) £millions	2011/12 Surplus (-) or deficit £millions	Trading unit	2012/13 Total Expenditure £millions	2012/13 Turnover (Income) £millions	2012/13 Surplus (-) or deficit £millions
0.303	-0.301	0.002	Charterhouse	0.314	-0.294	0.020
1.421	-1.414	0.007	Dillington House	1.427	-1.417	0.010
1.739	-1.642	0.097	Kilve	1.896	-1.780	0.116
3.210	-3.306	-0.096	Legal Services	3.806	-4.030	-0.224
0.405	-0.378	0.027	Resources 4 Learning	0.415	-0.425	-0.010
7.165	-7.507	-0.342	Somerset Skills and Learning	6.558	-7.038	-0.480
1.228	-1.092	0.136	Somerset Music	0.768	-0.881	-0.113
15.471	**-15.640**	**-0.169**	**Surplus (-) or deficit on trading activities**	**15.184**	**-15.865**	**-0.681**

The 2011/12 values shown on the face of the Comprehensive Income and Expenditure Account include Wyvern Nursery Group Ltd which ceased trading in 2012/13. The results for Wyvern Nursery can be found in Note 5 – Discontinued Operations.

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

Dillington House is Somerset's residential centre for adult education. It provides day and residential courses, talks and concerts, bed and breakfast, together with a wide range of conference facilities.

Somerset Outdoor Residential Service is made up of four centres: Kilve Court, The Outdoor Centre, Great Wood and Charterhouse. The centres offer outdoor and adventurous activities to support the personal and social development of children and young people who use our services. The Centres also offer a significant number of courses for able, gifted and talented students. Most people who use our services are groups from primary and secondary schools. Others include youth, community and adult groups.

Legal Services provides legal advice and assistance to Members, departments and schools on a wide range of matters, supporting delivery of the Council's vision and priorities through the provision of legal and registration services, whilst ensuring that the Council operates within the law and standards of governance and conduct expected of a public authority.

Resources 4 Learning provides a loans service for books and materials, mainly to Somerset schools, as well as providing specialist advice, installing library furniture, discounted purchases, off-air TV-programme recording and reprographics (copying and reproducing materials).

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

Somerset Music Services offers whole class ensemble tuition to all year 4 pupils and vocational tuition through open-access programmes to parents, families and carers of pupils in year 4 of primary school. The service also:

- runs musical performances and opportunities from local through to international levels;
- provides extended opportunities for music education and performance;
- manages the County Youth Orchestra and Concert Band;
- gives advice and support on music to us; and
- provides low-cost instrument hire to parents, families and carers of pupils in Somerset.
- Continuing professional development for all music teachers.

Note 17: Pooled Budgets

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

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

2011/12 £millions	Integrated Community Equipment Service (previously known as the Joint Equipment Service)	2012/13 £millions
	Income from:	
-1.199	Community Services Directorate	-1.200
-0.185	Children and Young People Directorate	-0.206
-1.195	NHS Somerset (Including Continuing Healthcare Income)	-1.244
-0.003	Other Income	-0.001
-0.038	Other Grant Income	-0.095
-2.620	Total income	-2.746
	Less the following spending:	
2.666	Equipment, delivery costs, minor work	3.034
0.086	Management and administration	0.073
2.752	Total spending	3.107
0.132	**Overspending or underspending (-)**	**0.361**

The **Adult Drug Treatment Service's** pooled budget allows us to provide effective services for adults with substance misuse problems. Income and spending for the year are as follows.

2011/12 £millions	Substance Misuse (previously known as the Adult Drug Treatment Service bu	2012/13 £millions
	Income from:	
-0.932	Community Services Directorate	-0.881
-3.969	NHS Somerset (including National Treatment Agency)	-4.051
-0.036	Avon and Somerset Probation Service	-0.036
-0.058	Avon and Somerset Constabulary	-0.058
-	Crime and Disorder Reduction Partnerships	-
-0.278	Home Office grant	-0.270
-	Other grants	-
-0.334	Previous year's funding brought forward	-
-5.607	Total income	-5.296
	Less the following spending:	
4.117	Turning Point (Including Community Access Programming)	3.951
0.213	Pharmacy related spending	0.247
0.088	Probation	0.088
1.048	Other spending	0.644
5.466	Total spending	4.930
-0.141	**Overspending or underspending (-)**	**-0.366**

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

2011/12 £millions	Learning Disabilities Service	2012/13 £millions
	Income from:	
-37.711	Community Services Directorate	-41.069
-0.405	Pensions Equalisation Reserve	-0.392
-15.558	Somerset Primary Care Trust	-15.924
-7.539	Income from charges and grant income	-5.511
-61.213	Total income	-62.896
	Less the following spending:	
24.836	Purchasing (independent sector)	29.207
9.559	Residential services	9.581
15.896	Supported housing	15.625
5.890	Day services	5.736
2.980	Community teams	2.982
59.161	Total spending	63.131
-2.052	**Overspending or underspending (-)**	**0.235**

Note 18: Members' Allowances

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

2011/12 £millions		2012/13 £millions
0.569	Basic Allowance	0.573
0.156	Special Responsibility Allowance	0.172
0.046	Travel and Subsistence Expenses	0.049
0.013	Payments to Co-optees	0.013
0.784		**0.807**

Note 19: Senior Officers' Remuneration

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

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

Table 1 – Staff paid more than £50,000 (shown in £5,000 bands) for the financial year ended 31 March 2013

2011/12 Number of employees			2012/13 Number of employees	
Schools	Non-schools	Employee pay bands	Schools	Non-schools
74	29	£50,000 to £54,999	68	23
63	14	£55,000 to £59,999	45	16
24	15	£60,000 to £64,999	28	16
7	2	£65,000 to £69,999	7	2
3	5	£70,000 to £74,999	2	1
3	3	£75,000 to £79,999	1	2
2	8	£80,000 to £84,999	3	4
4	-	£85,000 to £89,999	4	6
1	1	£90,000 to £94,999	-	2
-	-	£95,000 to £99,999	-	-
-	-	£100,000 to £104,999	-	1
1	-	£105,000 to £109,999	-	-
-	-	£115,000 to £119,999	-	-
-	-	£120,000 to £124,999	-	1
-	1	£140,000 to £144,999	-	-
-	1	£145,000 to £149,999	-	-
-	-	£155,000 to £159,999	-	-
-	1	£160,000 to £164,999	-	1

The following tables set out the salaries and wages our senior officers earned during 2011/12 and 2012/13. We have produced this table following LAAP Bulletin 85 and have named the staff who earned more than £150,000 (excluding compensation loss of office payments and pension contributions).

Table 2 – Actual salary and benefits paid for the financial year ended 31 March 2012

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 2011/12 £	Employer's pension contributions (Restated) £	Total wages and benefits including pension contributions 2011/12 (Restated) £
Chief Executive						
Sheila Wheeler	160,000	-	-	160,000	21,600	181,600
Corporate Director – Children's Services - note 1	135,000	12,300	-	147,300	18,200	165,500
Corporate Director – Community Services - note 2	121,700	22,200	-	143,900	17,100	161,000
Corporate Director – Environment - note 3	-	-	-	-	-	-
Corporate Director – Resources - note 4	-	-	-	-	-	-
Previous Business Improvement Director	-	-	-	-	-	-
New Business Improvement Director - note 5	-	-	-	-	-	-
Service Director for:						
- Service Partnership	84,800	-	-	84,800	11,400	96,200
- Finance and Property	84,800	-	-	84,800	11,400	96,200
- Physical Regeneration	84,800	-	-	84,800	11,400	96,200
- HR and Organisational Development	84,800	-	-	84,800	11,400	96,200
- Environmental Management and Regeneration	82,500	-	-	82,500	11,100	93,600
- Adult Social Care	82,300	-	-	82,300	11,100	93,400
- Community Regeneration	75,100	-	-	75,100	10,100	85,200
- Learning Disabilities	72,500	-	-	72,500	9,800	82,300
- Children's Social Care - note 6	72,500	-	-	72,500	9,800	82,300
- Partnerships	72,500	-	-	72,500	9,800	82,300
- Highways and Passenger Transport - note 7	-	-	-	-	-	-
- Transformation - note 8	-	-	-	-	-	-
- Client Services - note 9	70,600	22,800	-	93,400	9,500	102,900
- Deputy County Solicitor/ Monitoring Officer	55,700	-	200	55,900	7,500	63,400

Note 1: The Corporate Director for Children's Services left on 31 March 2012. The salary shown is therefore the annualised salary.

Note 2: The Corporate Director for Community Services left on 31 March 2012. The salary shown is therefore the annualised salary.

Note 3: The post for Corporate Director for Environment was left vacant during 2011/12.

Note 4: The post for Corporate Director for Resources was left vacant during 2011/12.

Note 5: During 2011/12 the post of Business Improvement Director was held by 2 different people, employed by SCC via an agency. The 2011/12 charge to the authority for these was £76,425 (previous Director) and £106,000 (current Director), totalling £182,425.

Note 6: The Service Director for Children's services left on 31 January 2012. The annualised salary for this post would have been £87,009.

Note 7: The post for Service Director for Highways was left vacant during 2011/12.

Note 8: The post for Service Director for Transformation was left vacant during 2011/12.

Note 9: The Service Director for Client Services left on 31 January 2012. The annualised salary for this post would have been £84,771.

Other notes:
Employer's pension contributions have been restated to include only the element associated with the individual employees (13.5%). The comparative amounts shown above for 2011/12 were disclosed in 2011/12 Statement of Accounts incorrectly as they included pension deficit recovery amounts which inflated the employer's pension contributions to 16%. Deficit recovery amounts cannot be attributed to individuals so the disclosure has been adjusted accordingly.

Table 3 – Actual salary and benefits paid for the financial year ended 31 March 2013

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 2012/13 £	Employer's pension contributions £	Total wages and benefits including pension contributions 2012/13 £
Chief Executive						
Sheila Wheeler	160,000	-	-	160,000	21,600	181,600
Executive Leadership Team - reporting to CEO						
- Group Director of Operations	120,000	-	-	120,000	16,200	136,200
- Finance and Performance Director	100,000	-	-	100,000	13,500	113,500
- Lead Commissioner Adults & Health	93,800	-	-	93,800	13,200	107,000
- Lead Commissioner Children & Learning	93,700	-	-	93,700	12,700	106,400
- Lead Commissioner Economic & Community Infra	85,000	-	-	85,000	11,500	96,500
- Business Development Director	61,600	-	-	61,600	8,300	69,900
Note 1						
- Customers & Communities Director	52,400	-	-	52,400	5,900	58,300
Note 2						
- Commissioning & Procurement Director	-	-	-	-	-	-
Note 3						
Senior Leadership Team - reporting to ELT						
- Economic & Community Infrastructure Operations Director	149,500	-	-	149,500	-	149,500
Note 4						
- Children & Families Operations Director	86,000	-	-	86,000	11,600	97,600
- Learning & Achievement Operations Director	86,000	-	-	86,000	11,600	97,600
- Learning Disabilities Operations Director	85,000	-	-	85,000	11,500	96,500
- HR & OD	84,700	-	-	84,700	11,500	96,200
- Adults & Health Operations Director	80,100	-	-	80,100	10,800	90,900
County Solicitor	52,600	-	-	52,600	7,800	60,400
Group Manager Community Governance / Monitoring Officer	51,300	-	-	51,300	6,900	58,200

Note 1 - The Business Development Director was appointed during August 2013. The annualised salary for this post would have been £100,000.

Note 2 - The Customers & Communities Director left in February 2013. The annualised salary for this post would have been £85,000

Note 3 - The post of Commissioning & Procurement Director was left vacant during 2012/13.

Note 4 - During 2012/13 the post of Economic & Community Infrastructure Operations Director was filled via an agency service. The charge to the authority for the year totalled £149,539.

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

Exit package cost band (inc. special payments)	Number of redundancies - compulsory & voluntary		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each cost band	
	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12 £millions	2012/13 £millions
£0 - £20,000	12	82	20	33	32	115	0.115	0.592
£20,001 - £40,000	0	8	4	9	4	17	0.112	0.466
£40,001 - £60,000	0	2	0	2	0	4	-	0.188

Note 20: Termination Benefits

Somerset County Council terminated the contracts of 92 employees in 2012/13, incurring liabilities of £0.604 million.

Local Authority
Of this total £0.237 million was payable to 16 staff who were made redundant as part of the Authority's rationalisation of the management. There was also a reduction of youth workers and active living coordinators from within the Education and Children's Service, with 52 people being made redundant at a cost of £0.164 million. The remaining amount was payable to a number of other employees across the Authority.

Teachers
Included in the above statement of £0.604 million, the Authority terminated the contracts of 14 teachers in 2012/13, incurring liabilities of £0.143 million. This can be analysed across the following:

- Primary 9 teachers
- Secondary 3 teachers
- Virtual/ Non-school specific 2 teachers

Note 21: External Audit Costs

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

2011/12 £millions		2012/13 £millions
	Audit fees	
0.204	– Main audit (including the Somerset Waste Partnership)	0.137
0.013	– Grant claims	0.006
0.028	– Other audit costs	0.003
0.245		**0.146**

Note 22: Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). An element of DSG is recouped to by the Department to fund academy schools in the council's area.

DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2011. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2012/13 are shown in the following table:

	Central spending £millions	Individual Schools Budget £millions	Total £millions
Final Dedicated Schools Grant for 2012/13 - before Academy Recoupment	-33.885	-287.230	-321.115
Academy figure recouped for 2012/13	-1.283	-91.372	-92.655
Total Dedicated Schools Grant after Academy recoupment for 2012/13	-32.602	-195.858	-228.460
Brought Forward from 2011/12	-4.849	-	-4.849
Agreed initial budgeted distribution in 2012/13	-37.451	-195.858	-233.310
Final budgeted distribution for 2012/13	**-37.451**	**-195.858**	**-233.310**
Less actual central expenditure	34.127	-	34.127
Less Actual ISB deployed to schools	-	195.858	195.858
Carry-forward to 2013/14	**-3.324**	**-**	**-3.324**

Note 23: Grant Income

The Authority credited the following grants, capital contributions and capital donations to the Comprehensive Income and Expenditure Statement in 2012/13:

2011/12 (Restated) £millions		2012/13 £millions
	Credited to Taxation and Non Specific Grant Income	
-30.733	- Revenue Support Grant	-2.387
-5.035	- Council Tax Freeze Grant	-10.142
-	- Council Tax Reform Grant	-0.027
-17.874	- Early Intervention Grant	-19.527
-0.188	- Lead Local Flood Authority Grant	-0.461
-0.070	- LD & Health Reform Grant	-0.119
-0.134	- Inshore Fisheries Grant	-0.134
-0.553	- New Homes Bonus	-1.266
-0.493	- Safer Communities Grant	-0.250
-0.468	- Rights to Free Travel	-0.580
-	- Building Schools for the Future	-0.205
-	- Community Rights to Challenge	-0.009
-0.315	- Rural Bus Grant	-
-8.195	- Standards Fund Capital Grant	-11.204
-0.297	- Devolved Formula Capital Grant	-0.639
-0.883	- National Heritage Lottery Fund	-
-26.639	- Department for Transport Capital Grant	-25.800
-2.266	- Other capital grants	-2.890
-4.000	- Other capital contributions	-1.947
-98.143	**Total**	**-77.587**
	Credited to Services	
-254.397	- Dedicated Schools Grant	-228.460
-7.948	- Standards Fund	-8.126
-1.058	- Sport England Grant	-
-3.387	- Pupil Premium Grant	-6.011
-0.853	- Music Education Grant	-0.256
-	- Music Education Hub Grant 2012-15	-0.512
-0.712	- Devolved Formula Capital Grant	-0.449
-0.051	- Intensive Evidence Based programme Grant	-0.200
-5.630	- Young People's Learning Agency Post-16 Funding SCC Schools	-
-	- 16-19 Funding	-1.734
-	- Sixth Form Funding (S6F)	-3.123
-6.698	- Skills Funding Agency (formerly Learning and Skills Council)	-5.483
-0.759	- Youth Justice	-0.741
-	- Troubled Families	-0.823
-1.891	- Children's services – other grants	-1.523
-0.526	- Social Care Reform Grant	-2.188
-0.185	- COM Warm Homes Healthy People Fund	-0.153
-	- DEFRA - AONB & LARC	-0.760
-	- European Agricultural Fund for Rural Development - LARC	-0.369
-3.535	- Department for Transport Winter Funding 2011/12	-1.522
-1.817	- Environment - other grants	-1.971
-0.398	- Community services – other grants	-0.643
-2.574	- Building Schools for the Future contributions	-6.016
-0.649	- Other services grants	-0.317
-293.068	**Total**	**-271.380**

Note 24: Related Parties

Somerset County Council is required to disclose material transactions with related parties; these are bodies or individuals that have the potential to control or significantly influence the Council or to be controlled or significantly influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government

Central government has the ability to control or exercise significant influence over the general operations of the Council. It is responsible for providing the statutory framework, within which the Council operates, it provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties. The grants received from Central Government are disclosed in Note 23.

Officers

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

Members

Elected Members of the Council have direct control over the Council's financial and operating policies. The total of Members' allowances paid in 2012/13 is shown in Note 18. The Members' Code of Conduct requires Members to declare interests in related parties in the Register of Members' Interests. The Register is available on the Council's website and is open to public inspection at County Hall during office hours. Members were also asked to declare separately transactions with the Authority. No material transactions between the Council and businesses in which members have a controlling interest have been identified.

A number of Members are also members of other local public bodies, including district, parish and town councils, academies and NHS trusts. During 2012/13 a variety of transactions took place between the Council and these organisations that are deemed not to be material.

Other Related Parties

The PLUSS Organisation, a company limited by guarantee, is an associate of the County Council, in which the Council has a 25% share of voting rights. In 2012/13 the Council paid £0.844 million to PLUSS.

Southwest One provides a number of services to the Authority through a contract. These services include elements of finance, facilities management, property services, payroll and technology services. In 2012/13 expenditure on services from Southwest One, including contract payments, was £34.292 million and income received from Southwest One, including payments for salaries of staff seconded from the Council to Southwest One, was £15.791 million. At 31/03/2012 we had a Southwest One debtor of £0.001 million and a Southwest One creditor of £0.650 million reported within our accounts.

The Authority has significant influence over various small local companies (27 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 2012/13 was £2.622 million.

Futures for Somerset, a long term strategic partnership, is an associate of the County Council, in which the Council has a 17% share of voting rights and influence over it's long term plans. In 2012/13 the Council paid £3.012 million (£2.538m for ICT equipment) to Futures for Somerset.

Note 25: Property, Plant and Equipment

Movements in 2012/13	Other Land & Buildings (restated) £millions	Vehicles, Plant & Equipment £millions	Infrastructure Assets £millions	Community Assets £millions	Surplus Assets £millions	Assets Under Construction £millions	Total £millions	PFI assets included in PPE £millions
Cost or valuation								
At 1 April 2012	633.772	63.108	450.333	1.033	4.368	7.107	1,159.721	-
Additions	58.642	3.213	25.443	-	-	13.756	101.054	48.781
Disposals	-70.535	-8.417	-	-	-0.014	-	-78.966	- 48.781
Reclassifications	9.745	1.050	-2.558	-0.211	-0.128	-9.056	-1.158	-
Revaluation Increase/decrease (-):								
- to Revaluation Reserve #	1.952	-	-	-	0.046	-	1.998	-
- to Surplus/Deficit on the provision of service	-5.875	-	-	-	-0.076	-	-5.951	-
At 31 March 2013	627.701	58.954	473.218	0.822	4.196	11.807	1,176.698	-
Depreciation and impairments								
At 1 April 2012	-67.855	-29.403	-169.176	-0.731	-0.137	-0.035	-267.337	-
Charge for 2012/13	-13.861	-9.179	-18.626	-0.045	-0.101	-	-41.812	-
Disposals	3.473	6.632	-	-	-	-	10.105	-
Reclassifications	-0.244	-	0.229	0.036	0.096	-0.143	-0.026	-
Revaluations #	45.384	-	-	-	0.182	-	45.566	-
Impairment Losses/reversals (-):								
- to Revaluation Reserve	-0.541	-	-	-	-	-	-0.541	-
- to Surplus/Deficit on the provision of service	-1.223	-0.337	-	-	-	-	-1.560	-
At 31 March 2013	-34.867	-32.287	-187.573	-0.740	0.040	-0.178	-255.605	-
Balance sheet amount at 1 April 2012	**565.917**	**33.705**	**281.157**	**0.302**	**4.231**	**7.072**	**892.384**	**-**
Balance sheet amount at 31 March 2013	**592.834**	**26.667**	**285.645**	**0.082**	**4.236**	**11.629**	**921.093**	**-**
Nature of asset holding at 31 March 2013								
Owned	520.450	25.269	285.645	0.082	4.236	11.629	847.311	-
Finance lease	72.384	1.398	-	-	-	-	73.782	-
	592.834	**26.667**	**285.645**	**0.082**	**4.236**	**11.629**	**921.093**	**-**

During 2012/13, we identified a material variance between the carrying value of our buildings (valued on a DRC basis) and their true fair value as at 31st March 13. The variance was due to an increase in the BCIS ALLCOS tender price index (build costs) since the portfolio was last valued. Due to the material nature of this increase, we have increased all our building assets (valued on a DRC basis) by the movement in the indices. This has resulted in an additional valuation gain of £41.133m being identified this year.

Movements in 2011/12	Other Land & Buildings (Restated) £millions	Vehicles, Plant & Equipment £millions	Infrastructure Assets £millions	Community Assets £millions	Surplus Assets £millions	Assets Under Construction £millions	Total £millions	PFI assets included in PPE £millions
Cost or valuation								
At 1 April 2011	836.502	62.360	424.089	1.782	6.313	9.994	1,341.040	-
Additions	11.649	4.298	26.244	0.119	-	6.231	48.541	3.823
Disposals	-222.996	-4.645	-	-0.361	-1.242	-	-229.244	- 3.823
Reclassifications	9.323	1.070	-	-0.507	-0.903	-9.118	-0.135	-
Revaluation Increase/decrease (-):								
- to Revaluation Reserve	1.256	0.025	-	-	0.200	-	1.481	-
- to Surplus/Deficit on the provision of service	-1.102	-	-	-	-	-	-1.102	-
At 31 March 2012	634.632	63.108	450.333	1.033	4.368	7.107	1,160.581	-
Depreciation and impairments								
At 1 April 2011	-58.216	-22.765	-151.665	-0.663	-0.177	-0.096	-233.582	-
Charge for 2011/12	-16.134	-8.980	-17.511	-0.165	-0.091	-	-42.881	-
Disposals	12.058	2.412	-	0.097	0.044	-	14.611	-
Reclassifications	0.045	-0.040	-	-	0.087	0.061	0.153	-
Revaluations	5.653	-	-	-	-	-	5.653	-
Impairment Losses (-)/reversals:								
- to Revaluation Reserve	-3.052	-	-	-	-	-	-3.052	-
- to Surplus/Deficit on the provision of service	-9.069	-0.030	-	-	-	-	-9.099	-
At 31 March 2012	-68.715	-29.403	-169.176	-0.731	-0.137	-0.035	-268.197	-
Balance sheet amount at 1 April 2011	**778.286**	**39.595**	**272.424**	**1.119**	**6.136**	**9.898**	**1,107.458**	**-**
Balance sheet amount at 31 March 2012	**565.917**	**33.705**	**281.157**	**0.302**	**4.231**	**7.072**	**892.384**	**-**
Nature of asset holding at 31 March 2012								
Owned	505.127	32.066	281.157	0.302	4.231	7.072	829.955	-
Finance lease	60.790	1.639	-	-	-	-	62.429	-
	565.917	**33.705**	**281.157**	**0.302**	**4.231**	**7.072**	**892.384**	**-**

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 – 5 to 7 years
- Infrastructure – 25 years
- Community assets – 10 years

Capital Commitments

At 31 March 2013, the Authority anticipated investing £74.9m (£62.3m at 31 March 2012) in the construction or enhancement of Property, Plant, Equipment and Infrastructure during 2013/14 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:

- £32.320m for the Superfast Broadband Programme
- £1.011m for the major building project to remodel Sky College in Taunton
- £0.404m for a new Autism base at Preston Academy in Yeovil
- £1.109m for major capital repair and improvements at Bridgwater College Academy
- £0.596m for a Basic Need classroom expansion project at St Mary's Primary School in Bridgwater
- £5.012m for the remodelling and extension at Taunton Academy
- £1.862m Contracts in relation to SMART Office

Similar commitments listed at 31 March 2012 were £12.866m.

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

1. An ongoing contract for the procurement of the highways major repairs that will result in an estimated capital expenditure of between £18 million and £20 million in 2013/14 (£18-£20 million in 2012/13). These payments will relate to new projects in 2013/14 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. The Council is also committed to a project for the Taunton Northern Inner Distributor Road. Whilst no contract was in place at the 31 March 2013 a contract is due to be signed early in the 2013/14 financial year which will commit the Authority to capital expenditure of £10.75 million, the majority of which will be financed from Central Government grant

Revaluations

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

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

	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	PPE Under Construction	Total
	£millions	£millions	£millions	£millions	£millions	£millions	£millions
Carried at historical cost	-	26.667	285.645	0.082	-	11.629	**324.023**
Valued at fair value as at:							
31 March 2013	340.782	-	-	-	1.472	-	**342.254**
31 March 2012	18.146	-	-	-	0.311	-	**18.618**
31 March 2011	39.501	-	-	-	-	-	**40.738**
31 March 2010	71.507	-	-	-	0.717	-	**75.543**
31 March 2009	119.957	-	-	-	1.736	-	**404.332**
Total cost or valuation	**589.893**	**26.667**	**285.645**	**0.082**	**4.236**	**11.629**	**918.152**

Note 26: Intangible Non Current Assets

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

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

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation charge of £0.325 million for 2012/13 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 £0.254 million was charged to the Community Services directorate for the AIS system (Social Care) and the Heritage website (Heritage Services).

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

2010/11 £millions	2011/12 £millions		2012/13 £millions
		Balance at start of year:	
1.780	1.780	– Gross carrying amount	2.853
-0.142	-0.214	– Accumulated amortisation	-0.581
1.638	**1.566**	**Net carrying amount at start of year**	**2.272**
		Additions:	
-	0.122	– Purchases	0.004
-0.072	-0.305	Amortisation for the period	-0.325
		Other changes	
-	0.889	– Transferred from assets under construction	-0.034
1.566	**2.272**	**Net carrying amount at end of year**	**1.917**

There are two items of capitalised software that are individually material to the financial statements:

	Carrying amount at 31 March 2011 £millions	at 31 March 2012 £millions	at 31 March 2013 £millions	Remaining Amortisation Period at 31 March 2013
SAP system licences (Integrated finance and payroll system)	1.566	1.495	1.424	19 years
AIS System (replacement of SWIFT)	-	0.734	0.492	2 years

Note 27: Impairment Losses

During 2012/13, the Authority has recognised an impairment loss of £2.101 million to its property, plant and equipment non-current assets. There was no significant loss to any single asset.

The loss can be allocated to the impairment of various assets becoming operational and to capital expenditure that was required to make good a number of our properties that was written-off to revenue in the year.

These disclosures are consolidated in Note 25 that reconciles the movements over the year in the property, plant and equipment balances.

Note 28: Assets Held For Sale

The majority of our assets held for sale during 2012/13 were county farms and the industrial units at Apple Business Centre, Taunton. We continue to sell the farms and this is reflected in the reduction in the book value shown in the table below:

Current 2010/11 £millions	Current 2011/12 £millions		Current 2012/13 £millions
-	**7.880**	**Balance outstanding at start of year**	**3.697**
		Assets newly classified as held for sale:	
12.049	1.821	Property, plant and equipment	1.390
-	0.615	Spend on assets held for sale	0.165
-	-	Revaluation losses	-
-2.936	-0.036	Impairment losses	-0.666
		Assets declassified as held for sale:	
-	-2.728	Property, plant and equipment	-0.172
-1.233	-3.855	Assets sold	-3.087
7.880	**3.697**	**Balance outstanding at year end**	**1.327**

Note 29: Leases

Authority as Lessee

Finance Leases

The Council has acquired a number of libraries, the Museum of Somerset, Dillington House (our residential centre for professional development, adult education and the arts), and a number of waste recycling vehicles under finance lease arrangements. We also report a number of Voluntary Controlled (VC) 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 2011 £millions	31 March 2012 £millions	31 March 2013 £millions
Other Land and Buildings	65.084	60.790	72.384
Vehicles, Plant and Equipment	-	1.639	1.398
	65.084	**62.429**	**73.782**

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

Included within the minimum lease payment commitments for 2012/13 (below) are the finance lease liability and finance costs for the BSF Bridgwater PFI scheme. Although the schools have been de-recognised from our accounts (due to control lying with the Bridgwater Education Trust) the lease rental payments are still payable and are therefore included within the total minimum lease payments. See note 30 for further details.

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

2011/12 £millions		2012/13 £millions
	Finance lease liabilities (net present value of minimum lease payments): #	
0.268	- Current	0.883
5.429	- Non Current	51.753
7.301	Finance costs payable in future years	71.911
12.998	Minimum lease payments	**124.547**

The total finance lease liabilities identified above exceeds the amount of deferred liability recognised in the Balance Sheet as at 31st March 2013, as the amounts we are committed to repay include £1.904m of lease liabilities that are not due to be recognised in our accounts until 2013/14 when the corresponding assets are brought into use.

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

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2012 £millions	31 March 2013 £millions	31 March 2012 £millions	31 March 2013 £millions
Not later than one year	0.696	5.065	0.268	0.883
Later than one year and not later than five years	2.784	20.989	1.184	4.286
Later than five years	9.518	98.493	4.245	47.467
	12.998	**124.547**	**5.697**	**52.636**

The minimum lease payments do not include rents that are reliant on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2012/13, £0.006m contingent rents were received by the Authority (nil in 2011/12).

The Authority has sub-let part of Taunton library (held under a finance lease) as an operating lease. At 31 March 2013, the minimum lease payments expected to be received under non-cancellable sub-leases was £0.197m (£0.214m at 31 March 2012).

Operating Leases

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

Operating Leases	31 March 2012 Land & Buildings £millions	31 March 2012 Vehicles & Equipment £millions	31 March 2013 Land & Buildings £millions	31 March 2013 Vehicles & Equipment £millions
Not later than one year	0.880	0.034	0.781	0.024
Later than one year and not later than five years	2.580	0.021	2.699	-
Later than five years	2.568	-	2.655	-
	6.028	**0.055**	**6.135**	**0.024**

The Authority has sub-let some of the assets acquired under operating leases. At 31 March 2013, the minimum lease payments expected to be received under non-cancellable sub-leases were £0.077m (£0.285m at 31 March 2012).

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

	31 March 2012 £millions	31 March 2013 £millions
Minimum Lease Payments	0.173	0.064
Less - Sub-lease payments receivable	-0.048	-0.007
	0.125	**0.057**

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 87 years. The Authority has also leased out (for a peppercorn rent) a section of Shire Hall to the Secretary of State for the Environment on a finance lease with a remaining term of 103 years. We did not acquire any of these assets specifically for the purpose of letting under finance leases.

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

	31 March 2012 £millions	31 March 2013 £millions
Finance lease debtor (net present value of minimum lease payments):		
- Current	0.027	0.028
- Non Current	22.077	22.050
Unearned Finance Income	70.986	69.947
Gross investment in the lease	**93.090**	**92.025**

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 2012 £millions	31 March 2013 £millions	31 March 2012 £millions	31 March 2013 £millions
Not later than one year	1.065	1.065	1.065	1.065
Later than one year and not later than five years	4.259	4.259	4.259	4.259
Later than five years	87.766	86.701	87.766	86.701
	93.090	**92.025**	**93.090**	**92.025**

During 2012/13, we reviewed our arrangement with Somerset Care Ltd and are confident that the lease payments will continue to be received when they fall due. We have therefore not set aside an allowance for uncollectable amounts in our accounts for 2012/13. This will be reviewed again in 2013/14, and if necessary an allowance for uncollectable amounts will be set aside.

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2012/13, no contingent rents were receivable by the Authority (£nil for 2011/12).

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 2012 £millions	31 March 2013 £millions
Not later than one year	0.317	0.326
Later than one year and not later than five years	0.619	0.461
Later than five years	0.609	0.928
	1.545	**1.715**

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.

Negotiations were completed between Somerset County Council and BAM PPP to rebuild Chilton Trinity, Elmwood and Robert Blake schools. Signatures for the contract were exchanged on 23 September 2010, and the construction was completed on 9 November 2012 when the schools were formally opened.

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

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

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

Payments for the scheme began in 2011/12 when the first of the assets, a leisure centre, was brought into use. During 2012/13, the payments were increased to include the costs associated with the new schools brought into use during 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 £	Interest Charges £	Service Charges £	LifeCycle Replacement £	Total Payments £
Within 1 year	645,744	4,141,451	1,642,555	-	**6,429,750**
Within 2 - 5 years	3,262,952	16,677,669	6,387,946	253,342	**26,581,909**
Within 6 - 10 years	6,060,192	19,014,862	7,835,655	1,964,702	**34,875,411**
Within 11 - 15 years	9,081,167	15,993,887	7,835,655	1,779,597	**34,690,306**
Within 16 - 20 years	13,608,082	11,466,972	7,835,655	3,483,773	**36,394,482**
Within 21 - 25 years	18,319,303	4,673,541	7,176,809	1,742,246	**31,911,899**
	50,977,440	**71,968,382**	**38,714,275**	**9,223,660**	**170,883,757**

Although the Council is committed to making these payments the leisure centre and new schools will be under the control of the BET and therefore do not appear on our balance sheet. This is also referred to in note 29 (Leases) on page 84.

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:

	2011/12 £millions	2012/13 £millions
Balance outstanding at start of year	-	3.809
Payments made during the year	-0.014	-3.517
Capital expenditure incurred in the year	3.823	48.781
Balance outstanding at year-end	**3.809**	**49.073**

The total estimated indexed payments under the contract amount to £205.165 million. These payments are scheduled to be funded from the following revenue streams:

	Proportion of Costs
Central Govt.Grant (PFI Credits	83%
Delegated School Budgets	15%
SCC Contribution	2%
	100%

Note 31: Heritage Assets - Five-Year Summary of Transactions

	2008/09 £millions	2009/10 £millions	2010/11 £millions	2011/12 £millions	2012/13 £millions
Carrying Value - as at 1 April					
Numismatic collections	0.306	0.306	0.306	0.664	0.781
Art Collections	-	-	-	-	0.004
Archaeology	-	-	-	-	-
Archives	0.380	0.380	0.380	0.380	0.380
Metalwork collections	0.130	0.130	0.130	0.130	0.130
	0.816	**0.816**	**0.816**	**1.174**	**1.295**
Cost of acquisitions of heritage assets					
Numismatic collections	-	-	0.358	0.117	-
Art Collections	-	-	-	0.004	-
Archaeology	-	-	-	-	0.016
Archives	-	-	-	-	-
Metalwork collections	-	-	-	-	-
Total cost of purchases	**-**	**-**	**0.358**	**0.121**	**0.016**
Carrying Value - as at 31 March					
Numismatic collections	0.306	0.306	0.664	0.781	0.781
Art Collections	-	-	-	0.004	0.004
Archaeology	-	-	-	-	0.016
Archives	0.380	0.380	0.380	0.380	0.380
Metalwork collections	0.130	0.130	0.130	0.130	0.130
Total Carrying Value - as at 31 March	**0.816**	**0.816**	**1.174**	**1.295**	**1.311**

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 our Museum and Archive Collections

The Museums Service is part of Somerset County Council's Heritage and Libraries Service and collects, preserves, interprets and exhibits the material evidence of humankind and the natural environment, with particular reference to the county of Somerset, for the purposes of inspiration, education and enjoyment. It manages the Museum of Somerset at Taunton Castle, the Somerset Rural Life Museum, Glastonbury, and the Somerset Brick and Tile Museum, Bridgwater.

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

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

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

The whole of the collection is publicly accessible:

- A proportion of the collection can be seen by visitors to our three museums, the Museum of Somerset, Taunton, the Somerset Rural Life Museum, Glastonbury, and the Somerset Brick and Tile Museum, Bridgwater. The Museum of Somerset and Rural Life Museum open from 10.00-17.00 Tuesday to Saturday and the Brick and Tile Museum from 10.00-16.00 Tuesday and Thursday. In addition, elements of the collection can be seen at other locations, for example, the Glastonbury Lake Village Museum, Glastonbury, Chard Museum and Watchet Boat Museum.

- The majority of the collection is in store at the Somerset Heritage Centre where material is available for viewing by prior appointment from 9.00 until 17.00 Monday to Friday. In addition, there are regular pre-booked public tours of the Heritage Centre which include the museum stores.

Heritage Assets of Particular Importance

Geology

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

The collection of Ice Age mammals is the most scientifically important geological collection in the museum consisting of 18,000 specimens collected from the famous bone caves of the western Mendip Hills and the fluvio-marine deposits (Burtle Beds) of Greylake in the Somerset Levels. The collection consists of bones, tusks, antlers and teeth of fossil mammals and birds. It represents the most significant Late Pleistocene assemblage in southern England.

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

Biology

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

* Study skins and mounted specimens - these include a small collection of British mammals and a good range of British bird species from the county together with some great rarities such as the Great Bustard and the White-tailed Sea Eagle.

* Birds' Eggs - these include an egg and nest collection from historic Somerset made by W. Wigglesworth, an important ornithologist of the early twentieth century.

* Conchological collections - The collection has two components:
- a large mid-19th century collection of foreign marine and terrestrial shells which includes interesting rarities and items of historical interest, e.g. a small collection of Japanese land snails given in 1951.
- a good late-19th century collection of British land, freshwater and marine shells containing identified specimens of small and deep-water species, types usually missing from collections.

* Entomological collection - The large and diverse insect collection comprises lepidoptera, hymenoptera, diptera, coleoptera and orthoptera. Dominated by butterflies, moths and beetles, it provides the material evidence to support an historical understanding of their state and status within the county.

* The herbarium - The collection contains vascular plants, mosses, liverworts, lichens and seaweeds. Together with the insects the herbarium is the most scientifically important collection and is the best documented. There are in excess of 30,000 specimens.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Preservation and Management

Details of our preservation and management policy can be found in the Heritage Services' *Museum Acquisition and Disposal Policy* which has been produced in accordance with national guidelines and is available on our website.
http://www.somerset.gov.uk/irj/go/km/docs/CouncilDocuments/SCC/Documents/Resources/Museum%20Acquisition%20and%20Disposal%20Policy%202011%20to%202016.doc

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 Public Work Loans Board (PWLB) repayment rate at 31 March 2013;
- 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 2012		31 March 2013	
	Carrying amount (Restated) £millions	Fair Value £millions	Carrying amount £millions	Fair Value £millions
Financial liabilities at amortised cost	-695.797	-697.689	-717.839	-717.839
PWLB	-174.637	-218.737	-169.602	-219.061
PFI deferred Liability at discounted rate	-	-	-49.073	-49.073
Other Loans	-183.372	-241.853	-173.255	-227.954
	-1,053.806	**-1,158.279**	**-1,109.769**	**-1,213.927**

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

The fair value of the liabilities is higher than the carrying amount because the Authority's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2013) arising from a commitment to pay interest to lenders above current market rates.

Financial Assets	31 March 2012		31 March 2013	
	Carrying amount (Restated) £millions	Fair Value (Restated) £millions	Carrying amount £millions	Fair Value £millions
Cash and liquid deposits	148.323	148.323	34.886	34.886
Loans and receivables	139.930	139.930	261.888	261.888
Long-term investments	5.594	5.594	5.879	5.879
	293.847	**293.847**	**302.653**	**302.653**

As our long term investments (Iceland) have been adjusted in our accounts to reflect their discounted value, the fair value of the assets is the same as the carrying value. Had the fair value of the assets been lower than the carrying amount this would have shown a notional future loss (based on economic conditions at 31 March 2013) attributable to the commitment to receive interest below current market rates. However, this is not the case.

We have no financial assets available for sale.

Short term debtors and creditors are carried at cost as this is a fair approximation of their value.

Short-term and long-term investments

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

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

2010/11 £millions	2011/12 £millions		2012/13 £millions
		Investments through the Comfund for:	
3.900	4.350	– South West Councils	3.750
3.200	3.500	– Exmoor National Park	3.500
0.365	0.365	– Police Community Trust	0.365
0.310	0.290	– Society of County Treasurers	0.270
0.175	0.175	– Falcon Housing Trust	0.325
0.250	0.800	– Richard Huish College	0.300
-	0.005	– Police Authority Treasurers' Society	-
0.250	0.125	– Learning South West	0.125
0.040	0.040	– Wyvern Club	0.040
0.295	0.100	– King Alfred School	0.375
8.785	9.750		9.050
101.215	57.250	Our own short-term investment in the Comfund	185.041
110.000	67.000	Total temporary Comfund investment	194.091
3.657	3.840	Other temporary investments	1.151
0.851	0.672	Interest due on temporary investments	0.657
114.508	**71.512**	**Total short-term investments**	**195.899**
8.189	5.593	Our own long-term investment in the Comfund	4.787
0.001	0.001	Investment in South West One	0.001
8.190	**5.594**	**Total long-term investments**	**4.788**

Long-term debtors

2010/11 £millions	2011/12 £millions		2012/13 £millions
		Loans to:	
0.556	0.523	Other authorities (mostly for housing)	0.487
0.098	0.090	Other organisations/individuals	5.601
0.141	0.111	Capital spending for probation to be funded in future years	0.037
1.830	0.830	Loan to ASPA	-
0.169	0.142	Officers' car loans and leases	0.104
23.184	22.076	Leasing arrangements with Somerset Care Ltd	22.050
25.978	**23.772**		**28.279**

Short-term borrowing

2010/11 £millions	2011/12 £millions		2012/13 £millions
-8.785	-9.750	Other organisations investing in the Comfund	-9.050
-0.069	-0.064	Interest payable on temporary borrowing	-0.032
-8.854	**-9.814**		**-9.082**

Long-term borrowing

2010/11 £millions	2011/12 £millions		2012/13 £millions
		Loans due to be repaid:	
-	-15.000	within one year	-
-15.000	-	between one and two years	-9.200
-9.200	-9.200	between two and five years	-
-	-	between five and 10 years	-
-329.550	-329.550	after more than 10 years	-329.550
-4.136	-4.259	Interest due on long-term borrowing	-4.107
-357.886	**-358.009**		**-342.857**

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 Council’s treasury activities are:

- Credit and Counterparty Risk (security of investments);
- Liquidity Risk / Refinancing Risk (inadequate cash resources / impact of debt maturing in future years);

- Market or Interest Rate Risk (fluctuations in interest rate levels);
- Inflation Risk (exposure to inflation);
- Legal and Regulatory Risk.

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

Credit and Counterparty Risk

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

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

The Somerset County Council Lending Counterparty Criteria is proposed and approved annually to incorporate any changes in financial institutions or developments in the wider political, economic, or legal environment. The criteria in force during 2012/13 can be found under the reports for the County Council meeting 15 February 2012, agenda item 7, Paper D Appendix B. The Treasury Management Practices are also available at Appendix D. These can be accessed via the hyperlinks below.

http://www1.somerset.gov.uk/council/board1/2012%20February%201%20Paper%20D%20Treasury%20Management%20Strategy%202012-13%20Appendix%20B.pdf

http://www1.somerset.gov.uk/council/board1/2012%20February%201%20Paper%20D%20Treasury%20Management%20Strategy%202012-13%20Appendix%20D.pdf

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

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

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

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

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

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

Risk rating provider	**Risk rating**	**Amount outstanding £millions**	**Potential at risk £millions**
Fitch	**Money-market funds**		
	AAA	-	-
	Local Authorities		
	AAA	46.000	-
	UK banks		
	AA	42.000	0.013
	A	106.029	0.085
	UK building societies		
	A	28.000	0.022
		222.029	**0.120**
S&P	**Money-market funds**		
	AAA	-	-
	Local Authorities		
	AAA	46.000	0.008
	UK banks		
	AA	42.000	0.008
	A	106.029	0.074
	UK building societies		
	A	28.000	0.020
		222.029	**0.110**
Moody's	**Money-market funds**		
	AAA	-	-
	Local Authorities		
	Aa1	46.000	-
	UK banks		
	Aa3	32.000	0.018
	A1	10.000	0.015
	A2	74.000	0.086
	A3	32.029	0.028
	UK building societies		
	A2	28.000	0.032
		222.029	**0.179**
	Investment and highest risk	**222.029**	**0.179**

Liquidity / Refinancing Risk

The Authority has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. The Council's cash flow investments are made with reference to the outlook for the UK Bank Rate and Money Market rates. Short-term deposits are made with suitable counterparties, and it has become more frequent under current market conditions that Call Accounts and CNAV MMFs have been used. MMFs offer an alternative high security, high liquidity investment into an extremely diversified portfolio. Many Call and MMF accounts offer more competitive rates than short-term time deposits up to 6-months, as well as instant access.

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

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

The Council will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid over reliance on any one source of funding if this might jeopardise achievement of the above. This can be managed through a combination of careful planning of new loans taken out and (where it is economic to do so) restructuring debt or making early repayments. The market loan portfolio can limit the control of early repayments, and a strategy is in place to minimise the impact should counterparties exercise their right to increase the interest rate charged. The maturity analysis of financial liabilities is shown in Note 33.

Market Risk

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

Interest Rate Risk

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

- Borrowings at variable rates – the interest expense charged to the Surplus or Deficit on the Provision of Services will rise;
- Borrowings at fixed rates – the fair value of the liabilities borrowings will fall;
- Investments at variable rates – the interest income credited to the Surplus or Deficit on the Provision of Services will rise; and
- Investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus of Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Any movements in the fair value of fixed rate investments that have a quoted market price would be reflected in Other Comprehensive Income and Expenditure.

The Authority has a number of strategies at its disposal for managing interest rate risk. A proportion of its borrowings could have been taken in variable rate loans during 2012/13, but after amendments to capital financing during the year, no new borrowing was necessary. All borrowing remains at fixed rates. During periods of falling or continued low interest rates, and where economic circumstances make it favourable, fixed rate loans can be repaid early to limit exposure to losses.

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

Some Call Accounts and Money Market Funds offered yields in excess of those on offer for time deposits up to 6 months, which meant that it was beneficial to use these facilities. This was beneficial not just for liquidity and yield, but in mitigating counterparty and interest rate risk.

Legal and Regulatory Risk

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

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

Foreign Exchange Risk

The Authority has few financial assets and liabilities denominated in foreign currencies other than a few invoices in major currencies, namely Euros, US Dollars and Australian Dollars. Therefore there is little exposure to loss arising from exchange rates. The council holds £1,016,781 in Icelandic Krone in escrow accounts in Iceland. Due to exchange controls imposed by the Icelandic Government it is not possible at present to repatriate this in Great British Pounds (GBP). SCC is working with other Local Authorities via the LGA to find a suitable, timely solution to this issue.

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

Note 35: Inventories

	Consumable Stores		Work In Progress		Total	Total
	2011/12 £millions	2012/13 £millions	2011/12 £millions	2012/13 £millions	2011/12 £millions	2012/13 £millions
Balance outstanding at start of year	**0.391**	**0.526**	**0.068**	**0.076**	**0.459**	**0.602**
Purchases	0.985	1.132	0.075	0.164	**1.060**	**1.296**
Recognised as an expense in the year	-0.850	-1.375	-0.067	-0.160	**-0.917**	**-1.535**
Balance outstanding at year-end	**0.526**	**0.283**	**0.076**	**0.080**	**0.602**	**0.363**

Note 36: Short term debtors and payments in advance

2010/11 £millions	2011/12 £millions		2012/13 £millions
		Money owed to us by:	
		Government Departments:	
9.617	4.131	- Central Government	8.745
9.950	9.279	- Local Government	8.359
0.895	3.261	- NHS	1.801
0.114	0.092	Officers (for car loans and leasing arrangements)	0.086
20.025	14.785	Other organisations/individuals	9.407
12.226	12.444	Payments made in advance - Other organisations	9.505
0.222	0.012	Payments in Advance - Central Government	0.012
0.049	0.040	Payments in Advance - Local Government	0.523
53.098	**44.044**		**38.438**

Note 37: Intangible current assets

2010/11 £millions	2011/12 £millions		2012/13 £millions
-	-	Carbon Reduction Allowances	0.013
-	**-**		**0.013**

Note 38: Short term creditors

2010/11 (restated) £millions	2011/12 (restated) £millions		2012/13 £millions
		Money we owe to:	
		Government Departments:	
-7.325	-5.343	- Central Government	-5.840
-8.378	-5.317	- Local Government	-8.719
-0.362	-0.345	- NHS	-0.367
-	-0.081	- Public Corporations	-0.001
-46.562	-39.375	Other organisations	-48.588
-10.559	-11.136	Employees (under IAS19)	-9.817
-6.586	-4.612	Receipts in advance - Other organisations	-5.112
-6.861	-	Receipts in advance - Central Government	-0.130
-0.211	-0.176	Receipts in advance - Local Government	-0.218
-0.076	-0.042	Receipts in advance - NHS	-
-86.920	**-66.427**		**-78.792**

Note 39: Other long term liabilities

2010/11 £millions	2011/12 £millions		2012/13 £millions
-0.421	-5.429	Finance Lease Liability - due in more than 1 year	-49.848
-394.074	-564.657	Pensions liability	-589.459
-394.495	**-570.086**		**-639.307**

Note 40: Provisions

2010/11 £millions	2011/12 £millions		2012/13 £millions
-3.114	-2.475	Total insurance provision (excl. MMI) set aside on 1 April	-2.105
		Add:	
-1.073	-1.629	- premiums received from services	-2.502
-0.035	-0.037	- interest received	-0.042
		Less:	
0.666	0.875	- insurance premiums paid	0.629
0.599	0.680	- net claims paid	0.718
0.447	0.444	- professional and administrative costs	0.491
0.035	0.037	Transfer to reserves set aside for other purposes	0.042
-2.475	**-2.105**	**Total insurance provision set aside on 31 March**	**-2.769**
		Resources	
-0.097	-0.048	Repairs and maintenance contracts not yet complete	-
-	-0.012	Late payment on construction contract (re. Abacus)	-
-0.306	-	Redundancies	-
-0.039	-	Human resources project	-0.020
-0.026	-	Legal costs	-
-0.020	-	Southwest One work in progress	-
-	-	BDOM Project provision	-0.030
		Environment	
-	-1.319	Highways and Traffic Management	-
-0.053	-0.082	Legal costs on appeal cases	-
-	-0.341	Carbon Emissions Charge	-0.300
-	-0.012	Transporting Somerset staffing costs	-
-	-0.030	Trading Standards costs relating to Tudor Chambers	-
-0.250	-	Contractor claims under network management contract	-
-0.263	-	Closure costs for Safety Camera Partnership & Speed Choice	-
		Children's Services	
-	-0.005	Playing for Success closure costs	-
-	-0.204	Care Leavers Grant	-0.253
-	-0.075	Healthy Schools Plus Programme	-
-0.029	-	ICT connections maintenance in Children's Centres	-
-0.070	-0.023	Education Business Link activity in schools	-
-0.024	-	Downs syndrome project	-
-0.535	-0.445	Social worker training programme	-
-0.090	-	Taunton Academy building surveys	-
-	-	Maiden Beech Academy Staffing Indemnity	-0.035
-4.277	**-4.701**	**Total Provisions due in less than 1 year**	**-3.407**
-	-0.020	Trading Standards costs relating to Tudor Chambers	-
		Municipal Mutual Insurance (MMI) Provision	
-0.768	-0.778	Relating to asbestos claims paid by MMI	-0.138
-0.768	**-0.798**	**Total Provisions due in more than 1 year**	**-0.138**

Insurance provision

The Councils own Insurance Fund directly covers a wide range of our insurance risks. However, there are a very limited range of risks which are not covered by insurance and we charge any loss which arises directly to the service concerned. At the end of the year we have £2.907 million of claims not yet finally agreed (£2.853 million in 2011/12) which we have not yet charged to the fund, but we have set aside this amount as a provision. We also have an earmarked reserve for the Insurance Fund, which currently contains £5.844 million. As we self-insure, we must put aside funds for any future claims as well as the current claims we must still pay.

Note 41: Grants and Contributions Receipts in Advance

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

Capital grants/contributions

2010/11 £millions	2011/12 £millions		2012/13 £millions
		Capital Grant Receipts in Advance	
		Where the conditions are likely to be met within 1 year:	
-6.161	-15.373	- Standards Fund (Schools Department for Education)	-14.998
-2.550	-4.529	- Department for Transport	-1.097
-0.280	-0.072	- DEFRA	-
-	-0.027	- National Lottery Heritage Grant	-
-	-0.176	- Other	-0.003
-0.853	-1.862	- Department for Communities and Local Government	-0.697
-9.844	**-22.039**		**-16.795**
		Where the conditions are likely to be met in more than 1 year:	
-10.036	-7.944	- Standards Fund (Schools Department for Education)	-8.084
-1.450	-	- Department for Transport	-
		- Other	-0.014
-11.486	**-7.944**		**-8.098**
		Capital Contribution Receipts in Advance (RIA)	
		Where the conditions are likely to be met within 1 year:	
-2.500	-0.695	- Section 106 Contributions	-1.645
-	-0.725	- Other Contributions to our Capital Schemes	-0.618
-2.500	**-1.420**		**-2.263**
		Where the conditions are likely to be met in more than 1 year:	
-3.373	-2.626	- Section 106 Contributions	-1.459
-0.055	-0.025	- Section 52 Contributions	-0.146
-0.345	-2.603	- Other Contributions to our Capital Schemes	-2.455
-3.773	**-5.254**		**-4.060**
-12.344	-23.459	Total Capital Grant/Contributions RIA's, where conditions are likely to be met within 1 year	-19.058
-15.259	-13.198	Total Capital Grant/Contributions RIA's, where conditions are likely to be met in more than 1 year	-12.158
-27.603	**-36.657**	**Total**	**-31.216**

Revenue grants

2010/11 £millions	2011/12 £millions		2012/13 £millions
		Revenue Grant Receipts in Advance	
		Where the conditions are likely to be met within 1 year:	
-6.313	-5.032	- Central Government	-1.856
-	-	- NHS	-0.045
-0.123	-0.593	- Other organisations	-0.009
-6.436	**-5.625**		**-1.910**
		Where the conditions are likely to be met in more than 1 year:	
-2.983	-0.781	- Central Government	-
-	-	- NHS	-0.015
-2.983	**-0.781**		**-0.015**
-9.419	**-6.406**		**-1.925**

Note 42: Usable Reserves

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

2010/11 (Restated) £millions	2011/12 (Restated) £millions		2012/13 £millions
22.924	21.559	General Fund - Schools	20.063
15.067	24.203	General Fund - Other	24.081
23.809	38.159	Earmarked Reserves - set aside for revenue purposes	45.292
7.708	14.610	Capital Receipts Reserve	19.972
7.711	10.193	Capital Grants Unapplied Reserve	10.441
7.382	6.876	Capital Contributions Unapplied Reserve	7.157
84.601	**115.600**	**Total Usable Reserves**	**127.006**

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 43).

Note 43: Unusable Reserves

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

2010/11 (Restated) £millions	2011/12 (Restated) £millions		2012/13 £millions
251.670	182.999	Revaluation Reserve	213.583
516.307	390.119	Capital Adjustment Account	351.154
26.031	23.934	Deferred Capital Receipts Reserve	22.907
-394.074	-564.657	Pensions Reserve	-589.459
1.756	2.829	Collection Fund Adjustment Account	0.230
-10.559	-11.135	Accumulated Compensated Absences Adjustment Account	-9.817
391.131	**24.089**	**Total Unusable Reserves**	**-11.402**

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.

2011/12 (Restated) £millions		2012/13 £millions	2012/13 £millions
251.670	**Balance at 1 April**		**182.999**
7.134	Upward revaluation of assets	49.871	
-3.052	Revaluation/Impairment (losses) not charged to the Surplus/Deficit on the Provision of Services	-2.847	
4.082	Surplus/Deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services		**47.024**
-6.824	Difference between fair value depreciation and historical cost dep'n	-5.848	
-65.929	Accumulated gains on asset disposals	-7.651	
-72.753	Amount written off to the Capital Adjustment Account		**-13.499**
182.999	**Balance at 31 March**		**216.524**

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

2011/12 (Restated) £millions			2012/13 £millions
516.307	**Balance at 1 April**		**390.119**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
-52.016	- Charges for depreciation and impairment of non current assets/assets held for sale	-44.038	
-1.102	- Revaluation losses on Property, Plant and Equipment	-5.951	
-0.305	- Amortisation of intangible assets	-0.325	
5.810	- Reversal of Icelandic impairment	0.670	
-7.001	- Revenue expenditure funded from capital under statute	-16.935	
-218.488	- 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	-71.948	
-273.102			-138.527
72.753	Adjusting amounts written out of the Revaluation Reserve		13.498
-200.349	Net written out amount of the cost of non current assets consumed in the year		-125.029
	Capital Financing applied in the year:		
7.121	- use of the Capital Receipts Reserve to finance new capital expenditure	6.464	
44.024	- Capital grants and contributions that have been applied to capital financing	56.273	
20.059	- Statutory provision for the financing of capital investment charged against the General Fund balance	22.742	
1.602	- Capital expenditure charged against the General Fund balance	0.354	
72.806			85.833
1.000	Repayment made in year to reduce the capitalised Icelandic investment impairment		-0.124
0.355	Repayment made in year to reduce the capitalised redundancy costs		0.355
390.119	**Balance at 31 March**		**351.154**

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.

2011/12 £millions		2012/13 £millions
26.031	**Balance at 1 April**	**23.934**
-1.026	Amounts transferred to the Capital Receipts Reserve during the year	-1.027
	Other movements:	
-1.071	Cancellation of Croft House finance lease	-
23.934	**Balance at 31 March**	**22.907**

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.

2011/12 £millions		**2012/13 £millions**
-394.074	**Balance at 1 April**	**-564.657**
-173.334	Actuarial gains or losses on pensions assets and liabilities	-1.877
-23.835	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	-49.322
26.586	Employer's pensions contributions and direct payments to pensioners payable in the year	26.397
-564.657	**Balance at 31 March**	**-589.459**

Collection Fund Adjustment Account

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

2011/12 £millions		**2012/13 £millions**
1.756	**Balance at 1 April**	**2.829**
1.073	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	-2.599
2.829	**Balance at 31 March**	**0.230**

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.

2011/12 £millions		2012/13 £millions
-10.559	**Balance at 1 April**	**-11.135**
10.559	Settlement or cancellation of accrual made at the end of the preceding year	11.135
-11.135	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	-9.817
-11.135	**Balance at 31 March**	**-9.817**

Note 44: Cash and Cash Equivalents

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

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

2010/11 £millions	2011/12 £millions		2012/13 £millions
15.462	5.278	Net Cash in hand	5.857
35.170	143.045	Short term Investment (initial maturity term less than 3 months)	29.029
50.632	**148.323**	**Cash and cash equivalents sub total**	**34.886**
-4.989	-0.908	Bank overdraft	-3.045
45.643	**147.415**	**Cash and cash equivalents at the end of the reporting period**	**31.841**

Note 45: Cash Flow Statement – Operating Activities

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

2011/12 (Restated) £millions		2012/13 £millions
166.791	Net surplus(-)/deficit on the provision of services	**66.288**
-43.187	Depreciation and amortisation	-44.363
-9.309	Impairment and downward valuations	-5.951
2.751	IAS 19 - Pension Liability	-22.925
5.796	Iceland impairment	0.670
-219.560	Carrying amount of non-current assets sold	-71.948
14.356	Movement in working capital	-6.414
-249.153		**-150.931**
54.968	Adjustment for items that are investing or financing activities	53.279
-27.394		**-31.364**

The cash flows for operating activities include the following items:

2011/12 £millions		2012/13 £millions
-3.908	Interest received	-3.839
28.562	Interest paid	34.308

Note 46: Cash Flow Statement – Investing Activities

2011/12 (Restated) £millions		2012/13 £millions
45.693	Purchase of property, plant and equipment, investment property and intangible assets	52.086
-	Purchase of short term and long term investments	126.149
0.074	Other payments for investing activities	0.041
-12.985	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	-11.815
-51.209	Proceeds from short term and long term investments	-3.223
-54.151	Other receipts from investing activities	-35.747
-72.578	**Net cash flows from investing activities**	**127.491**

Note 47: Cash Flow Statement – Financing Activities

2011/12 £millions		2012/13 £millions
-7.020	Cash receipts of short and long term borrowing	-3.955
-1.073	Appropriation to Collection Fund Adjustment Account	-
6.055	Repayments of short term and long term borrowing	19.655
0.238	Other payments for financing activities	3.747
-1.800	**Net cash flows from financing activities**	**19.447**

Note 48: 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.

2011/12 (Restated) £millions		2012/13 £millions
376.132	Opening Capital Financing Requirement	350.464
	Capital Investment:	
48.541	- Property, Plant and Equipment (including non-enhancing writedown)	101.054
0.122	- Intangible Assets	0.004
0.121	- Heritage Asset	0.016
0.615	- Current Assets Held for Sale	0.165
7.001	- Revenue Expenditure Funded from Capital Under Statute	16.935
-2.097	Reduction of long-term capital debtors	-1.027
-5.810	Capitalised Icelandic Investment Impairment/(Reversal)	-0.670
-0.355	Capitalised Redundancy Costs	-0.355
	Sources of Finance	
-7.121	- Capital receipts	-6.464
-44.024	- Government grants and contributions	-56.273
	- Sums set aside from revenue:	
-1.602	- Direct revenue contributions	-0.354
-20.059	- MRP/loans fund principal	-22.742
-1.000	- Capitalised Icelandic Impairment Repayment	0.124
350.464	**Closing Capital Financing Requirement**	**380.877**

2011/12 (Restated) £millions		2012/13 £millions
	Explanation of movements in year	
-11.870	Increase/Decrease (-) in underlying need to borrow (supported by government financial assistance)	-11.396
-19.307	Increase/Decrease (-) in underlying need to borrow (unsupported by government financial assistance)	-6.972
5.509	Assets acquired under finance leases	-
-	Assets acquired under PFI/PPP contracts	48.781
-25.668	**Increase/Decrease (-) in Capital Financing Requirement**	**30.413**

Note 49: Contingent Liabilities

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

Note 50: Landfill Allowance Trading Scheme

The Council receives landfill allowances as part of the Landfill Allowance Trading Scheme (LATS), established by the Department for Environment Food and Rural Affairs (DEFRA). In 2012/13 the Council was given allowances by DEFRA to dispose of 78,549 tonnes of biodegradable municipal waste in landfill sites. The Council disposed of 71,663 tonnes of such waste in landfill sites, resulting in an unused balance of 6,886 tonnes of allowances for the year. There is still no active market for these landfill allowances and therefore these unused allowances are not recorded in the balance sheet.

2012/13 is the final year of the Landfill Allowance Trading Scheme.

Note 51: Trust Funds

We have not included these funds, which we manage on behalf of trusts, on our consolidated balance sheet because the money does not belong to us. Most of the money can only be used for residential homes and educational purposes. On 31 March 2013 these stood at the levels shown below.

2011/12 £millions		2012/13 £millions
0.924	Field House	0.949
0.039	Other trusts	0.039
0.963		**0.988**

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

2011/12 £millions		2012/13 £millions
-0.050	Total income	-0.053
-0.077	Total spending	0.077
-0.127	**(Surplus)/ Deficit**	**0.024**
0.924	Value of assets	0.949
-	Less: long-term liabilities	-
0.924	**Total value of the fund**	**0.949**

Note 52: Defined Benefit Pension Schemes

Participation in Pension Schemes

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

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

- The Local Government Pension Scheme, administered locally by the Authority, is a funded defined benefit final salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

- 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.

Local Government Pension Scheme

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 table below shows the actual cost in millions of pounds, and as a percentage of total pensionable pay:

2011/12 (Restated)			**2012/13**	
£millions	%		**£millions**	%
23.290	16.1	Contributions we have paid to the Pension Fund towards our employees' pensions	18.501	13.5
43.193	29.9	Pension costs that we should charge to the accounts in line with proper accounting rules	28.991	21.1
0.921	0.6	Discretionary pension payments made in the year	0.884	0.6
26.440	-	Capital costs of discretionary pensions that we agreed in previous years	27.306	-

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:

2011/12 £millions		2012/13 £millions
	Comprehensive Income and Expenditure Statement	
	Net Cost of Services:	
29.900	- current service cost	36.233
-	- past service costs	0.039
-18.085	- settlements and curtailments	-4.122
	Financing and Investment Income and Expenditure:	
51.521	- interest cost	51.000
-39.501	- expected return on scheme assets	-33.828
23.835	**Total Post-employment Benefit Charged to the Surplus or Deficit on the Provision of Services**	**49.322**
	Movement in Reserves Statement	
-23.835	Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits in accordance with the Code	**-49.322**

In addition to the recognised gains and losses included in the Income and Expenditure Account, actuarial losses of £1.877 millions (£173.334 millions actuarial loss in 2011/12) were included within the Comprehensive Income and Expenditure statement during 2012/13. The cumulative amount of actuarial gains and losses recognised within the Comprehensive Income and expenditure statement is a loss of £332.417 millions.

Assets and Liabilities in Relation to Post-employment Benefits

2011/12 £millions	Reconciliation of present value of the scheme liabilities:	2012/13 £millions
-954.776	***Opening balance at 1 April***	**-1,127.850**
-29.900	Current service cost	-36.233
-51.521	Interest cost	-51.000
-9.329	Contributions by scheme participants	-8.778
-145.068	Actuarial gains and losses	-55.849
31.433	Benefits paid	32.191
-	Past service costs	-0.039
-0.779	Curtailments	-1.389
30.612	Settlements	8.400
-1,129.328	***Closing balance at 31 March***	**-1,240.547**
1.478	***Present Value of Unfunded Obligation not included above***	**1.489**
-1,127.850		**-1,239.058**

2011/12 £millions	Reconciliation of fair value of the scheme assets:	2012/13 £millions
560.702	***Opening balance at 1 April***	**563.193**
39.501	Expected return on Scheme assets	33.828
-28.266	Actuarial gains/(losses)	53.972
26.586	Employer contributions (including unfunded)	26.397
9.329	Contributions by scheme participants	8.778
-32.911	Benefits paid	-33.680
-11.748	Settlements	-2.889
563.193	***Closing balance at 31 March***	**649.599**

The expected return on assets is based on the long-term future expected investment return for each asset class as at the beginning of the period (i.e. as at 1 April 2012 for the year to 31 March 2013). The return on gilts and other bonds are assumed to be the gilt yield and corporate bond yield (with an adjustment to reflect default risk) respectively at the relevant date. The return on equities and property is then assumed to be a margin above gilt yields.

The actual return on scheme assets in the year was £87.873 million (2011/12 was £11.235 million).

Scheme History

	2008/09 £m	2009/10 £m	2010/11 £m	2011/12 £m	2012/13 £m
Present value of liabilities:					
Funded Liabilities	-674.337	-1094.633	-956.218	-1129.328	-1240.547
Unfunded Liabilities	1.400	1.490	1.442	1.478	1.489
	-672.937	**-1093.143**	**-954.776**	**-1127.850**	**-1239.058**
Fair value of assets in the Local Government Pension Scheme	**382.774**	**530.362**	**560.702**	**563.193**	**649.599**
Surplus/(deficit) in the scheme:	**-290.163**	**-562.781**	**-394.074**	**-564.657**	**-589.459**

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The total liability of £589.459 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 2013 has increased by approximately £25 million from 31 March 2012. This is due to changes in mortality assumptions, a reduction in the discount rate and the lower than expected return on assets over the year.

The regular contributions to the Fund for the accounting period to 31 March 2014 are estimated to be £28.228million.

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 2013, by rolling forward the value of the liabilities calculated for the Triennial valuation as at 31 March 2010 allowing for the different financial assumptions required under IAS19. A similar roll-forward approach was taken for the report as at 31 March 2012.

The principal assumptions used by the actuary have been:

2011/12		2012/13
	Long-term expected rate of return on assets in the scheme:	
6%	Expected return based on single net interest cost	6%
	Mortality Assumptions:	
	Longevity (in years) at 65 for current pensioners:	
20.0	- Men	20.1
24.0	- Women	24.1
	Longevity (in years) at 65 for future pensioners:	
22.0	- Men	22.1
25.9	- Women	26.0
2.5	Rate of Inflation (CPI)	2.6%
4.7	Rate of increase in salaries	4.8%
2.5	Rate of increase in pensions	2.6%
4.6	Rate of discounting scheme liabilities	4.5%
74%	Take-up of option to convert annual pension into retirement lump sum	71%

The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

2011/12 £millions	2011/12 %		2012/13 £millions	2012/13 %
399.867	71%	Equities	467.711	72%
33.792	6%	Gilts	51.968	8%
73.215	13%	Other Bonds	71.456	11%
50.687	9%	Property	51.968	8%
5.632	1%	Cash	6.496	1%
	100%			**100%**
	2%	Target Return Portfolio		16%

History of experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2012/13 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2013:

	2008/09		2009/10		2010/11		2011/12		2012/13	
	£m	%	£m	%	£m	%	£m	%	£m	%
Experience adjustments on:										
- scheme assets	- 169.064	-44.20%	109.565	20.70%	- 9.678	-1.70%	- 28.266	-5.00%	53.972	8.30%
- gains and losses on liabilities	-	-	-	-	25.161	2.60%	-	-	- 1.430	-0.10%

Teachers' Pension Scheme

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

2011/12 £millions	%		2012/13 £millions	%
14.741	14.10	Pension costs charged to the accounts	12.874	14.10
0.057	0.05	Discretionary payments made	0.038	0.04

Group accounts

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

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

The company's accounts are available from:

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

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

The companies accounts can be obtained from:

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

The Pension Fund

Local Government Pension Fund (LGP Fund)

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

Who the pension fund covers

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

The fund receives contributions and investment income to meet pension benefits and other liabilities related to a large number of the County Council's employees. It does not cover teachers (whose pensions are managed through the Government's Department for Children, Schools and Families). 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 seven tiered contribution bands dependent on the individual employee's pay, the seven contribution bands range from 5.5% to 7.5%. 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 last valuation of the fund was made as at 31 March 2010. 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 2011 to 2014 plus a fixed sum of £3.77m for 2011/2012, £4.88m for 2012/2013 and £5.83m for 2013/2014. This compares with a rate of 15.1% for the 2010/2011 year set under the 2007 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 17.9% at the 2010 valuation (14.7% at the 2007 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 17.9% is made up of a rate of 13.1% for new service and 4.8% for deficit funding. As part of the 2010 valuation most employers 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 77% of the fund's liabilities. The next actuarial valuation will take place in 2013 using data at 31 March 2103, the results will set the contribution rates for 2014 to 2017 and will take account of the new career average scheme being introduced by the Government.

The pension and lump-sum payments that employees receive when they retire are currently related to their final year's salary and also 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

2011/2012 £ millions	£ millions Restated		2012/2013 £ millions	£ millions	Notes
		Contributions and other income			
20.475		Contributions from employees	18.926		1
55.389		Contributions from employers	54.109		1
1.825		Recoveries from member organisations	1.478		1
4.681		Transfer values received	4.721		2
82.370			**79.234**		
		Less benefits and other payments			
-52.217		Recurring pensions	-56.489		1
-17.528		Lump sum on retirement	-14.223		1
-1.126		Lump sum on death	-1.265		1
-2.951		Transfer values paid	-4.572		2
-0.009		Refund of contributions to leavers	-0.013		3
-1.081		Administrative expenses	-1.157		4
-74.912			**-77.719**		
	7.458	**Net additions from dealings with members**		**1.515**	
		Investment income			
34.184		Investment income received	33.587		5
4.545		Investment income accrued	4.979		5
-3.278		Less investment management expenses	-3.160		6
-0.573		Less irrecoverable tax	-0.338		
0.010		Other income (such as commission)	0.008		
34.888			**35.076**		
		Change in market value of investments			
9.791		Realised profit or loss	26.247		
-22.565		Unrealised profit or loss	106.698		
-12.774			**132.945**		
	22.114	**Net return on investments**		**168.021**	
	29.572	**Net increase in the net assets available for benefits during the year**		**169.536**	
		Change in actuarial present value of promised retirement benefits			
-320.544		Vested benefits	-120.905		
-109.767		Non-vested benefits	-65.399		
	-430.311	**Net change in present value of promised benefits**		**-186.304**	
	-400.739	**Net increase/(decrease) in the fund during the year**		**-16.768**	
	-694.465	Add net liabilities at beginning of year		-1,095.204	
	-1,095.204	**Net liabilities at end of year**		**-1,111.972**	

Net Asset Statement

On 31 March 2012 £ millions		On 31 March 2013 £ millions	Notes
	Investment assets and liabilities		
1,191.087	Investment assets	1,361.834	7
-2.350	Investment liabilities	-0.195	7
4.897	Other investment balances	4.706	11
	Current assets		
4.936	Contributions due from employers	4.622	
0.021	Cash at bank	0.014	
3.502	Other debtors	0.263	
	Current liabilities		
-3.044	Other creditors	-2.659	
1,199.049	**Net assets of the scheme available to fund benefits at end of year**	**1,368.585**	
	Actuarial present value of promised retirement benefits		
-1,839.085	Vested benefits	-1,959.990	
-455.168	Non-vested benefits	-520.567	
-1,095.204	**Net liabilities at end of year**	**-1,111.972**	

Accounting policies

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

The Pension Fund financial statements have also been prepared in line with the Code of Practice on Local Authority Accounting in the UK 2012/13, 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 is valued using data supplied by the fund quarterly;
- the South West Regional Venture Fund is valued at cost;
- contributions and benefits are accounted for in the period in which they fall due;
- interest on deposits and fixed interest securities are accrued if they are not received by the end of the financial year;
- interest on investments are accrued if they are not received by the end of the financial year;
- all dividends and interest on investments are accounted for on 'ex-dividend' dates;
- all settlements for buying and selling of investments are accrued on the day of trading;
- transfer values are accounted for when money is received or paid. This treatment is in line with the revised SORP which applied fully from 1 April 1998. 1 transfer into the scheme amounting to £18,000 was agreed but not settled on 31 March 2013. There was no transfer out outstanding at the end of the financial year. Neither of these appear in these accounts; and
- 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.

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	8.503	8.848	1.076	**18.427**
- Additional	0.249	0.248	0.002	**0.499**
Total	8.752	9.096	1.078	**18.926**
Employers' contributions				
- Normal	18.495	20.614	2.636	**41.745**
- Augmentation	0.866	0.602	-0.009	**1.459**
- Deficit funding	4.880	5.135	0.890	**10.905**
Total	24.241	26.351	3.517	**54.109**
Recurring pension and lump sum payments	-33.192	-32.480	-6.305	**-71.977**
Money recovered from member organisations	0.057	1.392	0.029	**1.478**
	-0.142	**4.359**	**-1.681**	**2.536**

Note 1: Contributions and benefits (continued)

	Employees' contributions	Employers' contributions	Total
County council			
Somerset	8.752	24.241	32.993
Police & Crime Commissioner			
Avon & Somerset	3.266	9.035	12.301
District councils			
Mendip	0.263	0.803	1.066
Sedgemoor	0.495	1.582	2.077
South Somerset	0.789	2.104	2.893
Taunton Deane	0.733	1.940	2.673
West Somerset	0.151	0.391	0.542
Parish and town councils			
Axbridge Town Council	0.001	0.002	0.003
Berrow Parish Council	0.001	0.003	0.004
Burnham & Highbridge Town Council	0.006	0.016	0.022
Burnham & Highbridge Burial Board	0.004	0.012	0.016
Chard Town Council	0.010	0.034	0.044
Cheddar Parish Council	0.004	0.004	0.008
Crewkerne Town Council & Burial Board	0.007	0.018	0.025
Frome Town Council	0.015	0.043	0.058
Glastonbury Town Council	0.005	0.014	0.019
Ilminster Town Council	0.005	0.014	0.019
Langport Town Council	0.005	0.003	0.008
Lower Brue Drainage Board	0.026	0.070	0.096
Minehead Town Council	0.005	0.016	0.021
Nether Stowey Parish Council	0.001	0.002	0.003
Shepton Mallet Town Council	0.002	0.005	0.007
Somerton Town Council	0.002	0.006	0.008
Street Parish Council	0.002	0.006	0.008
Wellington Town Council	0.001	0.002	0.003
Wells Burial Board & Parish Council	0.015	0.023	0.038
Williton Parish Council	0.001	0.003	0.004
Wincanton Town Council	0.002	0.008	0.010
Yeovil Town Council	0.009	0.024	0.033
Other bodies			
Avon and Somerset Magistrates Court	-	2.245	2.245
Avon and Somerset Probation Trust	0.854	2.043	2.897
Exmoor National Park	0.108	0.288	0.396
Further-education colleges			
Bridgwater College	0.532	1.229	1.761
Richard Huish Sixth Form College	0.094	0.212	0.306
Somerset College of Art and Technology	0.188	0.434	0.622
Strode College	0.148	0.368	0.516
Yeovil College	0.163	0.371	0.534

Table continued on next page

Note 1: Contributions and benefits (continued)

	Employees' contributions	Employers' contributions	Total
Academies			
Ansford Academy	0.025	0.064	0.089
Avishayes Academy	0.014	0.038	0.052
Axbridge Academy	0.006	0.015	0.021
Bath & Wells Academy Trust	0.001	0.002	0.003
Bishop Fox’s Academy	0.032	0.080	0.112
Bridgwater College Academy	0.042	0.111	0.153
Brookside Academy	0.055	0.145	0.200
Bruton Sexey’s School	0.039	0.083	0.122
Buckler’s Mead Academy	0.040	0.099	0.139
Buckler’s Mead Leisure	0.001	0.002	0.003
Castle Academy	0.051	0.129	0.180
Crispin Academy	0.049	0.122	0.171
Enmore Academy	0.005	0.012	0.017
Haygrove Academy	0.047	0.120	0.167
Holyrood Academy	0.055	0.139	0.194
Huish Episcopi Academy	0.057	0.151	0.208
Kings of Wessex Academy	0.033	0.080	0.113
Kings of Wessex Leisure	0.007	0.016	0.023
Kingsmead Academy	0.041	0.098	0.139
Maiden Beech Academy	0.026	0.067	0.093
Minehead Middle School	0.033	0.090	0.123
Monteclefe Academy	0.004	0.010	0.014
North Town Academy	0.015	0.043	0.058
Oakfield Academy	0.028	0.073	0.101
Pen Mill Academy	0.005	0.013	0.018
Preston Academy	0.044	0.110	0.154
Redstart Academy	0.020	0.048	0.068
Selwood Academy	0.030	0.085	0.115
St. Dunstan’s Academy	0.028	0.072	0.100
St. Cuthbert's Academy	0.003	0.007	0.010
St. Michael's Academy	0.010	0.015	0.025
Stanchester Academy	0.031	0.078	0.109
Steiner Academy, Frome	0.003	0.007	0.010
Tatworth Academy	0.007	0.017	0.024
Taunton Academy	0.048	0.113	0.161
The Blue School, Wells	0.071	0.181	0.252
Weare Academy	0.008	0.020	0.028
Wedmore Academy	0.011	0.025	0.036
West Somerset Community College	0.072	0.193	0.265
Westfield Academy	0.051	0.128	0.179
Whitstone Academy	0.035	0.077	0.112
Total other scheduled employers	9.096	26.351	35.447

Table continued on next page

Note 1: Contributions and benefits (continued)

	Employees' contributions	Employers' contributions	Total
Admitted bodies			
Aster Communities Ltd	0.063	0.234	0.297
BAM FM	0.004	0.013	0.017
Care Focus Somerset Ltd	0.004	0.008	0.012
Connect South West	-0.006	0.055	0.049
DHI Ltd	0.001	0.001	0.002
Edward and Ward Ltd	0.029	0.094	0.123
Homes in Sedgemoor	0.092	0.267	0.359
ICM	0.021	0.088	0.109
Learning and Skills Network	-0.083	-0.304	-0.387
Learning South West	0.020	0.056	0.076
Leisure East Devon	0.016	0.029	0.045
Lovell Partnership	0.018	0.040	0.058
Magna West Somerset Housing Association	0.096	0.238	0.334
Mama Bear's	0.001	0.004	0.005
May Gurney Ltd	0.029	0.066	0.095
MD Building Services	0.015	0.038	0.053
National Autistic Society	0.013	0.039	0.052
NSL Ltd	0.023	0.065	0.088
SHAL Housing Ltd	0.022	0.058	0.080
1610 Ltd	0.059	0.113	0.172
SASP	0.021	0.042	0.063
Society of Local Council Clerks	0.019	0.050	0.069
Somerset Care Ltd	0.070	0.623	0.693
Somerset Rural Youth Project	0.001	0.004	0.005
South West Provincial Councils	0.029	0.162	0.191
Tone Leisure Ltd	0.074	0.153	0.227
Wyvern Nursery Ltd	0.012	0.026	0.038
Yarlington Housing Group	0.415	1.255	1.670
Total admitted employers	1.078	3.517	4.595
Total	**18.926**	**54.109**	**73.035**

Note 2: Transfer Values

2011/2012 £ millions		2012/2013 £ millions
-	Group transfer values received	0.892
4.681	Individual transfer values received	3.829
4.681		**4.721**
-2.951	Individual transfer values paid	-4.572
-2.951		**-4.572**

Note 3: Refunds

2011/2012 £ millions		2012/2013 £ millions
-0.008	Contributions refunded to people who leave with less than three months' service	-0.010
-0.001	Interest accumulated on refunds agreed in the past	-0.002
-0.009		**-0.012**
0.001	Deductions from contributions equivalent premium	0.002
-0.001	Less payments to Department for Work and Pensions contributions equivalent premium	-0.003
-0.009		**-0.013**

Note 4: Administration Expenses

2011/2012 £ millions Restated		2012/2013 £ millions
-0.652	Benefits administration costs charged by Somerset CC	-0.652
-0.190	Investments administration costs charged by Somerset CC	-0.192
-0.842		**-0.844**
-0.120	Actuary's fees	-0.114
0.030	Recharge of Actuary's fees to employers	0.041
-0.090		**-0.073**
-0.002	Legal advice costs charged by Somerset CC	-0.002
-0.076	External legal advice	-0.088
-0.078		**-0.090**
-0.022	Audit fees	-0.030
-0.049	Other expenses	-0.120
-1.081		**-1.157**

Note 5: Investment Income

2011/2012 £ millions		2012/2013 £ millions
10.274	Fixed interest	9.809
0.693	Index linked	0.721
10.029	UK equities	10.463
11.711	Foreign equities	11.574
5.611	Property unit trusts	5.525
0.248	Cash invested internally	0.377
0.003	Commission recapture	0.001
0.160	Stock lending	0.096
38.729		**38.566**

Note 6: Investment Expenses

2011/2012 £ millions Restated		2012/2013 £ millions
	Fund manager fees	
-0.177	Aviva Investors	-0.200
-0.135	JP Morgan Asset Management	-
-0.424	Jupiter Asset Management	-0.915
-0.162	Pioneer	-0.149
-0.054	Record Currency Management	-
-0.906	Standard Life Investments	-1.000
-0.126	UBS Global Asset Management	-0.048
-1.984		**-2.312**
	Other expenses	
-0.070	Professional services and subscriptions	-0.091
-0.160	Specialist IT systems	-0.115
-0.155	Custody fees	-0.073
-0.020	Performance measurement fees	-0.021
-0.889	Property unit trust managers' fees	-0.548
-1.294		**-0.848**
-3.278		**-3.160**

Note 7: Investment Assets & Liabilities

31 March 2012					31 March 2013			
£ millions	£ millions	%	%		£ millions	£ millions	%	%
				UK equities				
306.718		25.8		Quoted	355.891		26.1	
5.869		0.5		Standard Life smaller companies fund	7.118		0.5	
	312.587		**26.3**			**363.009**		**26.6**
				Overseas equities				
232.162		19.5		North America	264.018		19.4	
121.460		10.2		Europe 142.203			10.4	
25.105		2.1		Japan	27.989		2.1	
67.851		5.7		Pacific (not including Japan)	73.558		5.4	
0.642		0.1		Middle East	0.851		0.1	
34.507		2.9		Nomura Japan fund	38.361		2.8	
51.429		4.3		Pioneer emerging markets fund	54.954		4.0	
	533.156		**44.8**			**601.934**		**44.2**
				Bonds				
19.140		1.6		UK fixed-interest - public sector	35.629		2.6	
112.793		9.5		- corporate sector	115.081		8.5	
52.037		4.4		UK index-linked - public sector	64.941		4.8	
-		-		- corporate sector	-		-	
0.685		0.1		Overseas index-linked - public sector	-		-	
-		-		Overseas - public sector	1.025		0.1	
39.483		3.3		- corporate sector	36.389		2.7	
	224.138		**18.9**			**253.065**		**18.7**
				Property				
93.436		7.9		UK property funds	104.958		7.7	
8.520		0.7		Overseas property funds	7.812		0.6	
	101.956		**8.6**			**112.770**		**8.3**
				Private equity				
3.295		0.3		Neuberger Berman Crossroads 2010 fund	7.169		0.5	
2.000		0.2		South West regional venture fund	2.000		0.1	
	5.295		**0.5**			**9.169**		**0.6**
				Derivatives				
1.526		0.1		Forward foreign-exchange contracts	0.646		-	
-		-		Government bond futures	-		-	
	1.526		**0.1**			**0.646**		**0.0**
				Cash and others				
12.429		1.0		Cash invested internally	21.241		1.6	
	12.429		**1.0**			**21.241**		**1.6**
	1,191.087		**100.2**	**Investment assets**		**1,361.834**		**100.0**

Table continued on next page

Note 7: Investment Assets & Liabilities (continued)

31 March 2012 £ millions	£ millions	%	%		31 March 2013 £ millions	£ millions	%	%
				Derivatives				
-2.350		-0.2		Forward foreign-exchange contracts	-0.195		-	
-		-		Government bond futures	-		-	
	-2.350		**-0.2**			**-0.195**		**0.0**
	-2.350		**-0.2**	**Investment liabilities**		**-0.195**		**0.0**
	1,188.737		**100.0**	**Net investment assets**		**1,361.639**		**100.0**
				Made up of				
	1,010.453			Historical cost		1,076.658		
	178.284			Unrealised profit or loss		284.981		
	1,188.737					**1,361.639**		

Note 8: 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
2011/2012	Total	1,158.975	-17.379	3,128.598	-3,068.683	9.791	-22.565	1,188.737
Somerset County Council	Global equity	297.865	-	44.127	-41.711	-0.788	39.607	339.100
Standard Life	UK equity	285.454	-	109.690	-92.524	5.083	25.350	333.053
Somerset County Council	US equity	66.850	-	32.268	-32.731	-0.156	8.958	75.189
Jupiter	European equity	68.074	-	8.797	-11.801	-0.042	17.189	82.217
Nomura	Japanese equity	34.507	-	0.098	-	-0.098	3.853	38.360
UBS	Far East equity	41.564	-	16.867	-21.208	1.408	3.438	42.069
Pioneer	Emerging Market equity	51.429	-	2.500	-	-	1.025	54.954
Standard Life	Bonds	224.138	-	124.717	-113.107	5.937	11.379	253.064
Standard Life	Derivatives	0.367	-	515.620	-515.687	0.044	0.169	0.513
Aviva	Property	101.956	-	28.673	-	-11.384	-6.474	112.771
Aviva	Currency	0.163	-	57.808	-57.808	-	-0.224	-0.061
Record	Currency	-1.354	-	1.354	-	-1.354	1.354	-
Neuberger Berman	Global private equity	3.295	-	2.913	-	-	0.961	7.169
Yorkshire	UK venture capital	2.000	-	-	-	-	-	2.000
Somerset County Council	Cash	12.429	-18.896	-	-	27.597	0.111	21.241
2012/2013	**Total**	**1,188.737**	**-18.896**	**945.432**	**-886.577**	**26.247**	**106.696**	**1,361.639**

Note 9: Transaction Costs

The following amounts are included in the purchases and sales values disclosed in note 8 for costs associated with those transactions.

2011/2012 £ millions		2012/2013 £ millions
	Purchase Costs	
0.228	Broker commissions	0.210
0.391	Taxes and Fees	0.473
0.619		0.683
	Sales Costs	
0.214	Broker commissions	0.219
0.021	Taxes and Fees	0.019
0.235		0.238
0.854		**0.921**

Note 10: Management Structure

31 March 2011 £ millions	%	Manager	Asset class	31 March 2013 £ millions	%
297.865	25	Somerset County Council	Passive global equity	339.100	25
285.454	24	Standard Life	UK equity	333.053	24
66.850	6	Somerset County Council	Passive US equity	75.189	5
68.074	6	Jupiter	European equity	82.217	6
34.507	3	Nomura	Japanese equity	38.360	3
41.564	3	UBS	Far East equity	42.069	3
51.429	4	Pioneer	Emerging market equity	54.954	4
224.505	19	Standard Life	Bonds	253.577	19
102.119	9	Aviva	Property	112.710	8
-1.354	0	Record Currency Management	Currency	-	0
3.295	0	Neuberger Berman	Global private equity	7.169	1
2.000	0	Yorkshire Fund Managers	UK venture capital	2.000	0
12.429	1	Somerset County Council	Cash	21.241	2
1,188.737	**100**	**Net investment assets**		**1,361.639**	**100**

Note 11: Other investment balances

31 March 2012 £ millions		31 March 2013 £ millions
	Assets	
4.545	- Accrued income	4.328
0.544	- Accrued Recoverable tax	0.651
2.019	- Payments due on investments sold	1.667
7.108		**6.646**
	Liabilities	
-2.211	- Payments not made on purchases and losses due on sales	-1.940
4.897		**4.706**

Note 12: Major Holdings

31 March 2012 Rank	£ millions	Stock	Description	31 March 2013 Rank	£ millions
1	51.429	Pioneer Emerging Market Equity Fund	Pooled fund of emerging market equities	1	54.954
2	34.507	Nomura Japan Fund	Pooled fund of Japanese equities	2	38.360
4	16.714	HSBC	UK bank	3	26.003
3	21.576	Royal Dutch Shell	UK oil company	4	21.846
6	14.382	Vodafone	UK mobile phone company	5	17.044
5	15.413	BP	UK oil company	6	15.861
7	14.287	Glaxosmithkline	UK drugs producer	7	13.749
11	9.087	Schroders UK PUT	UK property unit trust	8	10.869
8	11.323	Rio Tinto	UK mining company	9	10.791
9	10.155	BHP Billiton	UK mining company	10	9.159
21	6.667	Barclays	UK bank	11	9.074
12	9.024	Aviva Pooled Pension PUT	UK property unit trust	12	8.813
17	7.129	Standard Chartered	UK bank	13	8.151
39	4.464	Threadneedle PUT	UK property unit trust	14	8.126
14	8.232	Blackrock property fund	UK property unit trust	15	8.031
15	7.929	British American Tobacco	UK tobacco company	16	7.916
26	5.876	Prudential	UK life insurance company	17	7.493
13	8.983	BG Group	UK gas company	18	7.271
10	9.234	Apple	US electronics company	19	7.201
64	3.295	Neuberger Berman Crossroads 2010 fund	Private equity fund	20	7.169

None of the holdings of the fund makes up more than 5% of the net investment assets. The largest holding (Pioneer Emerging Market Equity Fund) makes up 4.0% of the net investment assets.

Note 13: Derivatives

Investment in derivative instruments may only be made if they contribute to a reduction of risk or facilitates 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 2012 £ millions				31 March 2013 £ millions		
Asset	Liability	Net value		Asset	Liability	Net value
			Forward foreign-exchange contracts			
0.386	-0.019	0.367	Standard Life fixed Interest	0.646	-0.134	0.512
0.163	-	0.163	Aviva	-	-0.061	-0.061
0.977	-2.331	-1.354	Record passive fund	-	-	-
1.526	**-2.350**	**-0.824**		**0.646**	**-0.195**	**0.451**

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 high yield 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 2012 £ millions Asset exposure value	**Liability exposure value**	**Net value**		**31 March 2013 £ millions Asset exposure value**	**Liability exposure value**	**Net value**
			Forward foreign-exchange contracts			
47.387	-47.020	0.367	Standard Life fixed Interest	41.726	-41.214	0.512
8.860	-8.697	0.163	Aviva	8.103	-8.164	-0.061
125.476	-126.830	-1.354	Record passive fund	-	-	-
181.723	**-182.547**	**-0.824**		**49.829**	**-49.378**	**0.451**
			Government bond futures			
0.916	-0.916	-	UK gilt future	0.356	-0.356	-
-	-	-	Austrialian bond future	1.323	-1.323	-
-	-	-	Canadian bond future	1.050	-1.050	-
1.242	-1.242	-	US treasury future	1.517	-1.517	-
2.158	**-2.158**	**-**		**4.246**	**-4.246**	**-**
183.881	**-184.705**	**-0.824**		**54.075**	**-53.624**	**0.451**

Note 14: Stock Lending

31 March 2012 £ millions		31 March 2013 £ millions
22.506	Value of stock on loan	52.575
23.803	Value of collateral held against loaned stock	55.966

31 March 2012 %		31 March 2013 %
	Form of collateral provided	
16.8	UK Government debt	30.6
-	US Government debt	1.2
-	Euro area Governments debt	48.4
0.6	US$ denominated corporate debt	-
4.1	€ denominated corporate debt	-
3.0	UK equities	2.3
75.5	Overseas equities	17.5
100.0		**100.0**

Note 15: Membership Statistics

As at 31 March	2007	2008	2009	2010	2011	2012	2013
Active scheme members	**19,071**	**19,886**	**20,022**	**20,450**	**20,492**	**19,505**	**19,446**
Pensioners							
Current (in payment)	9,126	9,706	10,126	10,821	11,664	12,301	12,636
Deferred (future liability)	10,059	10,897	12,787	13,817	14,923	16,816	18,958
Total (active plus pensioners)	**38,256**	**40,489**	**42,935**	**45,088**	**47,079**	**48,622**	**51,040**
Active members for each current pensioner	2.09	2.05	1.98	1.89	1.76	1.59	1.54

Note 16: 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 2012 £ millions		31 March 2013 £ millions
	Value of additional voluntary contributions	
4.063	Prudential	3.814
0.511	Equitable Life	0.448
4.574		**4.262**

2011/2012 £ millions		2012/2013 £ millions
	Additional voluntary contributions paid during the year	
0.597	Prudential	0.477
0.597		**0.477**

Note 17: Related Parties

Pensions Committee members, Tim Carroll, Sam Crabb, William Wallace Anthony Trollope-Bellew and John Wilkins were active members of the councillors' scheme, which is a part of the Somerset County Council Pension Scheme, during the year. Committee member Caroline Moore was an active member of the standard scheme during the year and Committee member Sarah Payne was a deferred member of the standard scheme during the year.

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

The fund holds shares in a number of companies that Somerset County Council and the other member bodies have commercial dealings with. Decisions about the suitability of companies for the fund to invest in are taken by Standard Life, Jupiter Asset Management, UBS Global Asset Management, Nomura Asset Management, Pioneer Investments and Aviva Investors for their parts of the fund, without referring to the county council, its officers or other member bodies. Decisions about suitable investments for the in-house funds are made based only on the recommendations of a quantitative analysis system, so officers do not have the power to include or exclude specific companies.

Payments made to Somerset County Council by the fund for administration and related services are disclosed in note 4.

No other related party transactions other than normal contributions, benefits and transfers occurred during the year. In note 1 we analyse the total contributions we were due to receive and benefits the fund paid for scheduled and admitted bodies.

Note 18: Remuneration

No staff are directly employed by Somerset County Council Pension Fund. All officers who undertake work on behalf of the fund are employed by Somerset County Council and then costs, including pay where appropriate, are charged to the fund. The total cost of these charges is shown in note 4 of these accounts.

The total actual salary and benefits paid for the financial year ended 31 March 2013 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 2013 Post title	Salary (including fees and allowances) £	Compensation for loss of office £	Benefits in kind £	Total wages and benefits but not including pensions contributions 2012/13 £	Employer's pension contributions £	Total wages and benefits including pensions contributions 2012/13 £
Director of Finance and Performance	100,000.00	-	-	100,000.00	13,500.00	113,500.00
Strategic Manager - Finance Technical	55,800.00	-	-	55,800.00	7,600.00	63,400.00

For comparison purposes the equivalent disclosure for the financial year ended 31 March 2012 is shown in the table below.

Year to 31 March 2012 Post title	Salary (including fees and allowances) £	Compensation for loss of office £	Benefits in kind £	Total wages and benefits but not including pensions contributions 2011/12 £	Employer's pension contributions £	Total wages and benefits including pensions contributions 2011/12 £
Director of Finance and Performance	84,800.00	-	-	84,800.00	11,400.00	96,200.00
Strategic Manager - Finance Technical	50,000.00	-	-	50,000.00	6,750.00	56,750.00

Note 19: Statement of Investment Principles

We have prepared a Statement of Investment Principles, which explains the strategies and policies that we use in the administration of the pension fund's investments. The full details of the statement are published in the Pension Fund Annual Report and Financial Statement and is also available on the County Council website.

Note 20: Contingent liabilities

There were no contingent liabilities as at 31 March 2013.

Note 21: Post balance sheet events

There were no post balance sheet events as at 30th September 2013.

Note 22: 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 7 of these accounts, the approximation of the fair value of the net of these assets and liabilities at 31 March 2013 being £1,362m.

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 10 of these accounts. A management agreement is put in place with each external fund manager which clearly states the type of investments they are allowed to make for the fund, asset allocation ranges and any further restrictions we believe are necessary.

To make investments as secure as they can be, where possible, external investments are maintained under the control of a safe custodian. Only cash holdings and a small number of unit trusts stay under the control of officers.

Because the fund adopts a long term investment strategy, the high level risks described below will not alter significantly during the year unless there are significant strategic or tactical changes in the portfolio.

Market Risk

Market risk represents the risk that the fair value of a financial instrument will fluctuate because of changes in the market prices of assets or currencies where the assets are priced in currencies other than British pounds.

The fund is exposed to market risk on all of its investment assets with the exception of the cash holdings in Sterling. The aim of the investment strategy is to manage and control market risk within acceptable parameters, while optimising the return from the investment portfolio

The fund holds a diversified portfolio of different assets, which are managed by a variety of fund managers which have a variety of investment styles. This diversification is the most effective way of managing market risk.

The fund particularly manages the effect of market movements on exchange rates by hedging a portion of its foreign currency exposure using currency forwards. Details of this are given in note 12 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 2013 by the amounts shown below.

Asset class	Value of Assets £ millions	Volatility	Increase in Assets £ millions	Decrease in Assets £ millions
UK equities	363.009	17.90%	64.979	-64.979
Foreign equities	601.934	15.30%	92.096	-92.096
UK bonds	150.710	7.70%	11.605	-11.605
Overseas bonds	37.414	13.20%	4.939	-4.939
UK index-linked bonds	64.941	7.20%	4.676	-4.676
Property	112.770	6.20%	6.992	-6.992
Cash	21.241	-	-	-
Others	9.620	7.50%	0.722	-0.722
Net investment assets	**1,361.639**		**186.007**	**-186.007**

Credit Risk

Credit risk represents the risk that the counterparty to a financial instrument will fail to meet an obligation and cause the fund to incur a financial loss. This is often referred to as counterparty risk.

The fund is subject to credit risk within its general debtors although none of these would represent a material risk to the fund.

The fund has credit risk to each of its employer bodies in that they could become insolvent and default on a pension deficit owed to the fund. The majority of the employers in the fund are statutory bodies backed to a greater or lesser extent by the UK government. For the admitted bodies the credit risk is mitigated and managed by the holding of guarantee bonds or having their deficit guaranteed by one of the statutory bodies within the fund.

Bankruptcy or insolvency of the custodian may affect the fund's access to its assets. However, all assets held by the custodian are ring-fenced as "client assets" and therefore cannot be claimed by creditors of the custodian. The fund manages its risk by monitoring the credit quality and financial position of the custodian.

A source of credit risk is the cash balances held to meet operational requirements or by the managers at their discretion and cash deposits with various institutions. Internally held cash is managed on the fund's behalf by the Council's Treasury Management Team in line with the fund's Counterparty Policy which sets out the permitted counterparties and limits. The exposure within the cash management part of the portfolio to a single entity is limited to £8m and all counterparties must be rated at least “A” or higher by a major rating agency. In this context the fund’s cash balances (including the cash held at bank or net of bank overdraft) of £21.3m is subject to credit risk.

Through its securities lending activities, the fund is exposed to the counterparty risk of the collateral provided by borrowers against the securities lent. This risk is managed by restricting the collateral permitted to high grade sovereign debt and baskets of liquid equities. Cash collateral is not permitted. Details of the collateral held are provided within note 14 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 13 of these accounts.

It is arguable that the fund has significant exposure to credit risk within its bond holdings, the reality is that as the perception of the credit quality of the bond issuer varies through time the market price of the bond varies accordingly, this means that the market risk of these holdings effectively encompasses the counterparty risk.

Liquidity risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The fund mitigates this risk by monitoring and projecting its cash flow to enable it to have cash resources as they are required and maintains a cash balance to meet working requirements.

A substantial portion of the fund's investments consist of cash and readily realisable securities, in particular equities and fixed income investments that are listed on exchanges. This gives the fund access to in excess of £1bn of assets which could be realistically liquidated into cash in less than a week.

The main liability of the fund is the benefits payable, which fall due over a long period and the investment strategy reflects the long term nature of these liabilities. The estimated present value of these obligations is shown on the net asset statement of these accounts and the value of these benefits that fell due in the past financial year is shown on the fund account of these accounts.

The forward foreign exchange contracts held by the fund do give rise to a liquidity risk as they must be settled at a prescribed date agreed at the time of placing the contract. The exact size of this liability varies in line with foreign exchange prices on an on-going basis. The furthest date at which some of these contracts expire is never more than 6 months and the cash flows involved are regularly monitored to ensure we can meet these liabilities as they fall due. The fair value and full exposure levels of the forward foreign exchange contracts held are provided in note 13 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 £10,000 and therefore do not pose a significant liquidity risk to the fund.

Note 23: 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 2013 into the 3 levels of the fair value hierarchy.

Asset Class	Level 1 £ millions	Level 2 £ millions	Level 3 £ millions	Total £ millions
UK equities	363.009			363.009
Overseas equities	601.934			601.934
Bonds	253.065			253.065
Property funds		112.770		112.770
Private Equity funds			9.169	9.169
Forward foreign-exchange contracts	0.451			0.451
Government bond futures	-			-
Cash	21.241			21.241
Net investment assets	**1,239.700**	**112.770**	**9.169**	**1,361.639**

Note 24: Disclosures

There is a restatement on the fund account within administration expenses and investment expenses for the prior year. An amount of £76,000 for external legal expenses was disclosed as part of professional services and subscriptions in investment expenses in the 2011-12 accounts. This amount has been moved to the administration expenses and disclosed separately in the notes in this year's restatement of the 2011-12 accounts.

UBS Global Asset Management ceased to manage the Far East equity mandate on behalf of the fund on 31st March 2013. From the 1st April 2013 this mandate has been run by the in-house team on a passive basis.

Under IFRS the fund must disclose what consideration it has given to accounting standards that have not been adopted. For the 2012-13 accounts the relevant standards relate to the accounting of employee benefits (IAS19), comprehensive income (IAS1), financial instruments disclosures (IAS 7) and income taxes (IAS12). The changes to comprehensive income and income taxes are not relevant to the fund. The changes to the employee benefits disclosures affect how the fund is represented in the accounts of our employers but does not affect the fund's accounts. The changes to financial instruments disclosures specifically addresses the effect or potential effect of netting arrangements. No such netting of assets and liabilities occurs within the fund except within individual derivatives contracts, where full disclosure is already made. As a result it is not anticipated that any of these changes would require different disclosure within these accounts if they had been adopted.

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. 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. There has been no significant change to any individual assumptions between 31 March 2012 and 31 March 2013.

Kevin Nacey, Director of Finance and Performance
September 2013

Glossary of terms

This section explains complicated terms that we have used throughout this document.

Accruals
An amount shown in our accounts to cover money we owe or money owed to us, in the financial year, but which we will not actually pay or receive until the following year. (See also Creditors and Debtors.)

Accumulated funds
Reserves that have built up over a period of time.

Actuarial gains or losses
The actuarial gains or losses to the pension fund are made up of:

- actual gains or losses to the value of the fund's investments;
- changes to the number, age and sex of staff that contribute to the pension fund; and
- changes to the assumptions about the growth of investments and the liabilities of the scheme.

Admitted organisations
Organisations that take part in the Local Government Pension Scheme with our agreement. Examples of these organisations include housing associations, development agencies and companies providing services that we used to provide. (See also Scheduled organisations.)

Apportionment
A way of sharing the cost of management and administration to services using an appropriate method (for example, the amount of floor space taken up by accommodation-related support services).

Associate
An organisation or company other than a subsidiary or joint venture in which we have an interest and over whose operating and financial policies we have a lot of influence.

Best value
Under the Local Government Act 1999, we must constantly aim to improve our services. We must review all our functions within a five-year period. The aim is to make a real and positive difference to services which local people receive.

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

Capital charges
Charges we make to services for using fixed assets when providing the service.

Capital contributions and grants
Money we receive towards paying for capital spending on a particular service or scheme.

Capital financing charges
The charge to our capital financing reserve for repaying loans. It does not include:

- interest on the loans; or
- the direct cost of buying assets in the year.

Capital receipts
The proceeds from selling assets such as buildings.

Capital spending
Our spending on buying or creating a fixed asset or spending that adds to and does not just maintain the value of an existing asset, for example, land, buildings, roads, new furniture, vehicles and equipment.

Capitalisation
Capitalisation of an asset takes place when its cost 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 we have not spent, which services can use in future years.

Cash-limited budgets
Fixed amounts of money, including allowances for pay and price increases, given to departments to run their services. All spending should be met from these budgets. This also involves flexibility in carrying forward underspending and overspending.

Central Government Grants
There are different types of grant.

- Revenue Support Grant – the main government grant to support local-authority services.
- Specific service grants – payments from the Government to cover local-authority spending on a particular service or project (for example, Standards Fund for schools). Specific grants are often a fixed percentage of the costs of a service or project.
- Supplementary grants – grants towards capital spending for highway schemes.

CIPFA
The Chartered Institute of Public Finance and Accountancy. This is the professional institute governing how public money is used and how it has to be reported.

Collection funds
Accounts which district councils keep to record the amounts of council tax collected.

Comfund
We operate a joint scheme called the Comfund to earn the best possible interest on our investments. We invest our spare reserves into this scheme, together with investments from other organisations who also take part.

Community assets
Assets that we plan to hold forever, have no set useful life, and may have restrictions on how we sell or otherwise dispose of them. Examples of community assets are parks, historic buildings and various conservation works.

Contingent liability
A possible liability which may arise when we know the outcome of claims made against us which have not yet been settled.

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

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

Creditors
People we owe money to for work, goods or services we receive but which we have not paid for by the end of the financial year.

Current value
The cost of an asset if bought in the current year.

Debtors
People who owe us money that we are due to receive but which we have not been paid by the end of the financial year.

Deficit
There are two types of deficits. A fund is said to be in deficit when its liabilities are higher than its assets. An in-year deficit is achieved when spending is higher than income.

Depreciation
The reduction in the value of assets, for example, through wear and tear.

Fair value
The price at which we could buy or sell an asset or loan in a transaction with another organisation, less any grants we receive towards buying or using that asset.

Finance leases
Leases where we treat the organisation paying the lease as if they own the goods. The organisation gains the profits that would come with ownership but it also suffers the losses. (See Operating leases.)

Financing transactions
Also known as interest and investment income. They mainly relate to interest payments and receipts associated with managing our cash flow and reserves during the year.

Fixed assets
Items such as land, buildings, vehicles and major items of equipment, which benefit us over more than one year.

FRS
A financial reporting standard issued by the Accounting Standards Board. FRSs are gradually replacing SSAPs. Our accounts keep to these standards where they apply to local authorities.

General reserves
The amounts we have built up this year, and over earlier years, that we have not set aside for specific purposes.

Gross book value
This is the original or revalued cost of an asset before any depreciation is taken off it. (See also Net Book Value.)

Historical cost
What a fixed asset cost us to buy originally.

IFRIC
International Financial Reporting Interpretations Committee. IFRIC reviews newly identified financial reporting issues not specifically addressed in IFRS or issues where unsatisfactory or conflicting interpretations have developed, with a goal to reaching a consensus on the appropriate treatment.

IFRS
International Financial Reporting Standards are issued and set by the International Accounting Standards Board (IASB). These are standards that companies and organisations follow when compiling financial statements and replace FRS.

Impairment
Where an asset's value has been reduced by physical deterioration or other factors beyond usual wear and tear. The asset's value in the accounts also has to be reduced to reflect this impairment.

Infrastructure
A fixed asset that cannot be taken away or transferred, and which we can only continue to benefit from by actually using it. Examples of infrastructure are roads, bridges and footpaths.

Intangible assets
Non-financial fixed assets that do not exist physically but that the council owns or has a right to use. Examples include software licences and brand names like 'Coca'Cola'.

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

Long-term investments
Those investments which we plan to hold on a continuous basis (for example, shares in South West One).

Material error
A mistake in the accounts that could be serious enough to influence the reader's opinion of our financial performance or position.

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

National Non-Domestic Rate (NNDR) income (also known as Uniform Business Rate, or UBR)
District councils collect this from non-domestic properties, at a national rate set by the Government. The proceeds are pooled nationally and redistributed to areas according to the size of their population.

Net book value
The value of an asset as recorded in the accounts. It is usually the net current replacement or original cost less any depreciation we have charged.

Net current replacement cost
The cost of replacing an asset in its existing condition and use.

Net present value
The net present value (NPV) of an asset is the current net value of the future receipts and payments associated with it.

Net realisable value
The selling value of an asset less the costs of selling it.

Net service underspend
A service's total spending less that service's allocated budget, plus money that is carried forward from previous years.

Netted off
Where the money we are due to pay is reduced by the money that is owed to us.

Non-distributed costs
Specific overheads relating to unused assets and certain pension costs for employees' service in previous years. These are not allocated to service departments because they do not relate to the current year's cost of providing the service.

Non-funded pension schemes
Pension schemes that do not have an actual fund from which pensions are paid and contributions are made into. Instead payments are made to current pensioners directly from the year's budget. The teachers' pension scheme is an example of a non-funded scheme that we run.

Notionally funded pension schemes
A form of non-funded pension scheme that are treated similarly to funded schemes. There is no stock of investments, but employer contribution rates are set as if there were investments, based upon figures set by government actuaries. The Teachers' Pension Scheme is notionally funded.

Operating leases
Under this type of lease, the risks and rewards of ownership of the leased goods stay with the company leasing out the goods.

Operational assets
Those assets (for example, land and buildings) that we use so we can provide services.

Other operating costs
Includes spending on buildings, fuel, light, rent, rates, buying furniture and equipment, administration and other costs.

Pensions equalisation reserve
Money we have set aside to maintain the level of pension charges to revenue for social services schemes jointly paid for by the health authority.

Precept
What we demand from the collection funds maintained by the district councils.

Principal
The original amount borrowed. It does not include interest or other charges.

Procurement
The process of gaining the use of supplies, services and construction work.

Projected unit method
A common method by which actuaries estimate the cost of future benefits to a pension scheme. The method works out the costs of future benefits members are expected to earn over a period (usually a year) following the valuation date, allowing for future increases in pay until retirement or the date a member leaves service.

Provisions
Money we keep to pay for known future costs.

Provision for credit liabilities
Money we set aside to repay debts or to cover spending which we have borrowed money for. We include these details in the Capital Adjustment Account.

Prudential Code
The Prudential Code has been introduced by the regulations supporting the Local Government Act 2003. Local authorities can borrow money to pay for capital spending in a similar way as people can get a mortgage to buy a house. Until April 2004, the Government used to tell local authorities how much they could borrow. This code replaces central government control with self-regulation — each local authority is now responsible for deciding how much it can afford to borrow. Under the regulations, when we are making this decision we must keep within the Prudential Code, which sets out the principles that local authorities must follow. These include the following.

- Affordability – can we afford to make the repayments?
- Prudence – are we planning to borrow sensibly?
- Value for money – will the loan pay for something that is good value for money?
- Service delivery – will the loan help us to provide our services in the way we want to?

PWLB
The Public Works Loan Board, a government agency which lends money to the public sector.

Remuneration
Includes taxable salary payments to employees less employees' pension contributions, together with non-taxable payments when employment ends (including redundancy, pension enhancement payments, and pay in lieu of notice), taxable expense allowances and any other taxable benefits.

Revenue spending
The day-to-day spending on employment costs, other operating costs and capital charges, less any income from fees, and charges.

Ring-fenced grant
This is money that can only be used for certain things.

SAP
Our computerised accounting and procurement system.

Scheduled organisations
Local government organisations that have automatic rights to take part in the Local Government Pension Scheme. Examples include the County Council, Police Authority, district and town councils, further-education colleges, National Park Authority and the probation service. (See also Admitted organisations.)

Surplus
There are two types of surplus. A fund is said to be in surplus when its assets are higher than its liabilities. We achieve an in-year surplus when our income is higher than our spending.

Tangible assets
Operational assets, non-operational assets and assets currently being built.

The Code
The Code of Practice on Local Authority Accounting. Provided by CIPFA this takes over from the SORP and includes the move to international accounting standards. The Code provides details and definitions on subjects for which it was not considered appropriate to issue an international financial reporting standard (IFRS).

Transfer values
Payments made between pension schemes of accumulated pension funds for employees who change their employment.

Work-in-progress
The value of work on an unfinished project at the end of the year.

Write down
To reduce the value of an asset in a set of accounts.

Write off
To reduce the value of an asset to nothing in a set of accounts.

More information

If you have any comments or feedback on these accounts, please contact us. This will help us to provide a more informative and useful document.

For more information on these accounts, or for extra copies, please write to:

Lizzie Watkin FCCA
Chief Accountant
County Hall
Taunton
Somerset
TA1 4DY.

Phone: 01823 355484
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

Published by:
Corporate, Accounting
& Technical Section,
Finance Department,
Somerset County Council