SOMERSET COUNTY COUNCIL

STATEMENT OF ACCOUNTS 2011/12

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SOMERSET County Council

Foreword from the Chief Financial Officer

I am pleased to present Somerset County Council's Statement of Accounts for 2011/12. This document, together with our Annual Report and many of the plans we have to produce by law, provide a commentary on our financial performance and how our services are performing. Making sure we are accountable for what we do is an extremely important part of our work, and our financial statements help show how your money has been used.

We value and celebrate cultural and social differences. Our equal opportunities promise is to provide all services of equal quality, which meet your needs and fulfil your rights. You can expect us to treat you fairly with respect and dignity, and to understand your needs, whatever your background.

Kevin Nacey CPFA

Director – Finance and Performance

27 September 2012

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 2011/12 and shows our financial position on 31 March 2012. It includes the following statements and accounts:

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

We use some technical terms in these accounts, which we have explained in the glossary on page 139.

Important developments this year

Budget Cuts

Throughout the world the economic downturn has had a dramatic impact. Within the UK, the Coalition Government has adopted a policy of austerity to address the problem, as have many other countries. Public Sector spending has been significantly reduced, and Local Government has borne a large proportion of this reduction. Somerset County Council had £10 million cut from our 2010/11 funding – several months into the year – announced as part of the 2010 'Emergency Budget', and a further £22 million or 12.7% cut from our 2011/12 funding. The Government has also provisionally announced that future funding will continue to reduce, with a cut of £10 million (7%) in 2012/13.

These cuts fall at a time when demand for our services is increasing significantly, as families and businesses "feel the pinch". Inflation has remained almost double the Government's targeted level throughout the year, adding considerable pressure to our budgets.

On a positive note, the Government has continued to fund capital projects through grant, rather than the much maligned 'Supported Borrowing'. This will significantly reduce the ongoing impact of capital investment on the revenue budget.

Change Programme

Our Change Programme will redefine the future shape, role and purpose of the Authority, focussing on protecting vulnerable children and adults, developing the economy and making the organisation more accessible and 'fit for purpose' whilst ensuing we provide value for money. This includes a review of our senior management structure and many of our key contracts with service suppliers to release savings and ensure that we have greater flexibility in the future. The Change Programme commenced this financial year and is scheduled to be completed by March 2014. Savings from this programme are vital to balance the Council's budget.

Although the Change Programme itself will be self-funding over its lifetime, investment will be required up-front in order to realise the savings, not just to address the known funding shortfall but to prepare the Authority for the future. We have therefore consciously augmented our levels of reserves. As the programme identifies ‘invest to save’ opportunities, these funds will be utilised.

Schools converting to Academy status

During 2009/10, the Government introduced the option for schools rated by Ofsted as “outstanding” or “good with outstanding features” to convert to Academy status. Academies are publicly funded independent schools and therefore no longer form part of Somerset County Council’s accounts. To date 30 schools have converted to academy status with another 9 schools expected to convert in the near future. This will have a significant impact upon our finances and management of services to schools, it also accounts for a marked decrease in our fixed assets.

Revenue spending in 2011/12

In February 2011, we agreed our budget for 2011/12 at £333.4 million. This resulted in a band-D council tax of £1,027.30, which is the same as in 2010/11.

The following table shows that our actual spending was £317.5 million against the budget of £333.4 million which includes transfers. These figures are based on directorate 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 41.

Directorate	2011/12 budget £millions	2011/12 actual spending £millions	Difference £millions	Difference %
Children's services	110.8	76.4	-34.4	-31.1
Community services	146.2	137.6	-8.6	-5.9
Environment	65.3	62.6	-2.7	-4.1
Resources	26.7	25.5	-1.2	-4.6
	349.0	**302.1**	**-46.9**	**-13.4**
Non-service items (central costs, such as bank charges, that cannot be linked to a particular service)	19.8	15.4	-4.4	-22.2
	368.8	**317.5**	**-51.3**	**-13.9**
Transfer to or from (-):				
the carry-forward fund	-33.7	8.3	42.0	
revenue reserves which we have set aside	-1.7	4.6	6.3	
the capital fund	-0.5	-0.4	0.1	
general reserves	0.5	3.4	2.9	
	333.4	**333.4**	**-**	
Funded by:				
Revenue Support Grant	-30.7	-30.7	-	
Business Rates	-99.4	-99.4	-	
Council Tax	-203.3	-203.3	-	
	-333.4	**-333.4**	**-**	

Carry forward fund

Services are allowed to spend up to their approved budgets. In 2011/12, this was £349 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. On top of this, some spending (for items outside our services' control) is funded from general reserves. The following table on page 3 shows how the carry forward fund changed during the year.

Of the £41.690 million total carried forward, £25.653 million is for individual school budgets and cannot be used for anything else. This is a decrease of £3.804 million over the previous year and is due mainly to the movement of schools to academy status. The residual level is partly because all schools receive a special grant, which many are saving up to pay for future building work. The other £16.037 million relates to carry forwards for particular services.

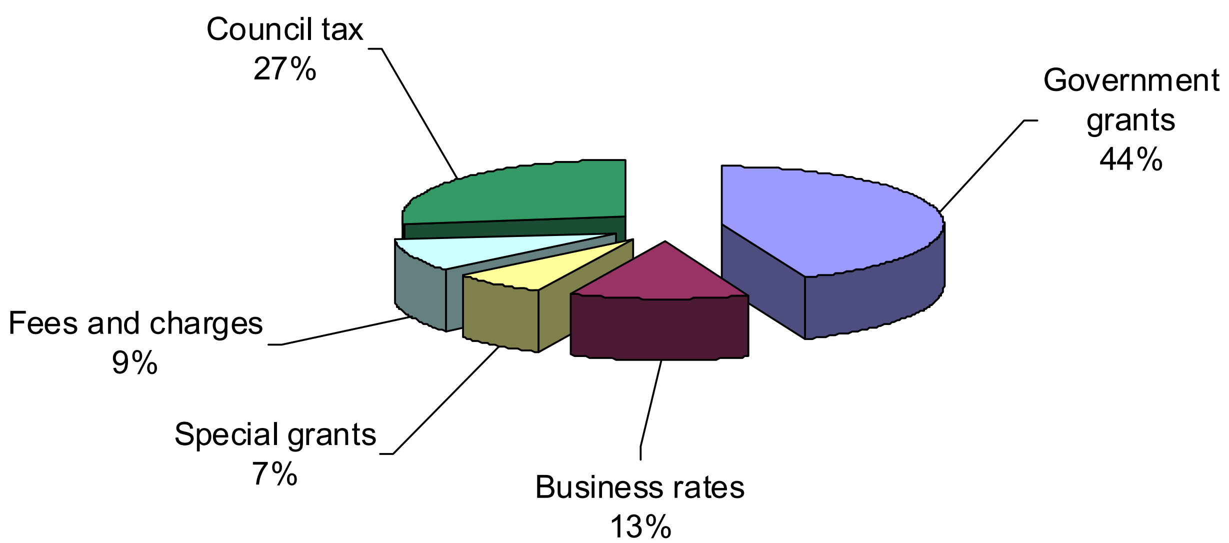
Financing

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.

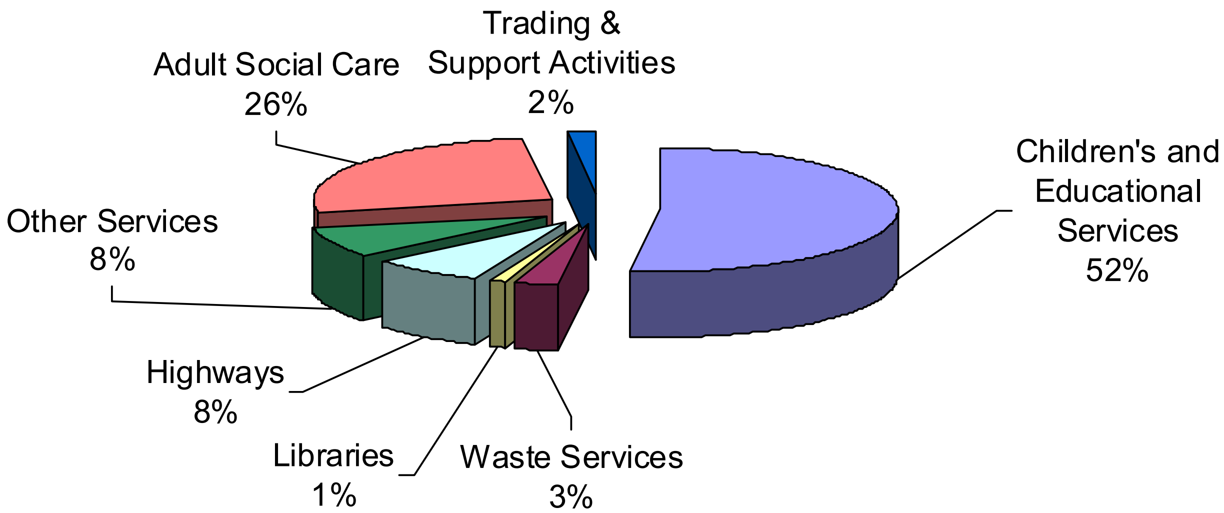
Carry forward fund	2011/12 £millions	2011/12 £millions
Balance on 1 April 2011		32.986
Add: 2010/11 overspending funded from general reserves		3.306
Add: overspending managed by services		0.547
		36.839
Less: 2011/12 approved use of carry-forward reserves		-34.260
		2.579
Net service underspending 2011/12	42.532	
Transferred to other revenue reserves	-3.023	
School Loans Scheme repayments and advances	-0.398	
Underspending transferred to the carry forward fund		39.111
Carry-forward fund on 31 March 2012		41.690

Analysis of total revenue spending (£763.3 million)

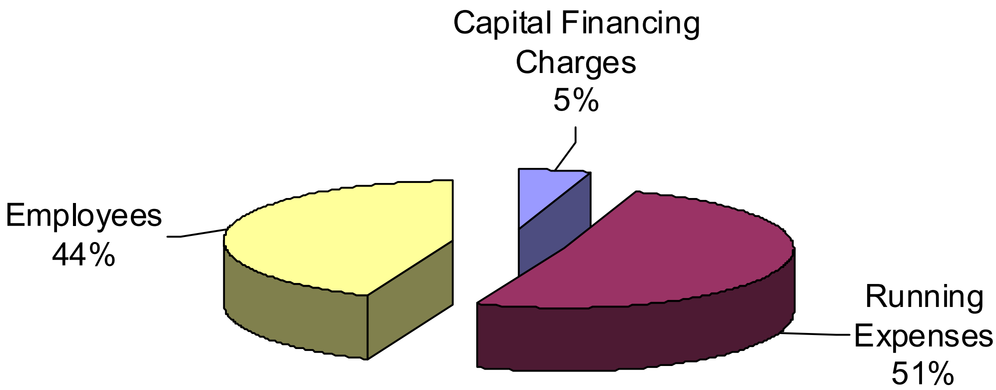
Where the money came from



Which services we spent it on



How we spent this



Capital spending in 2011/12

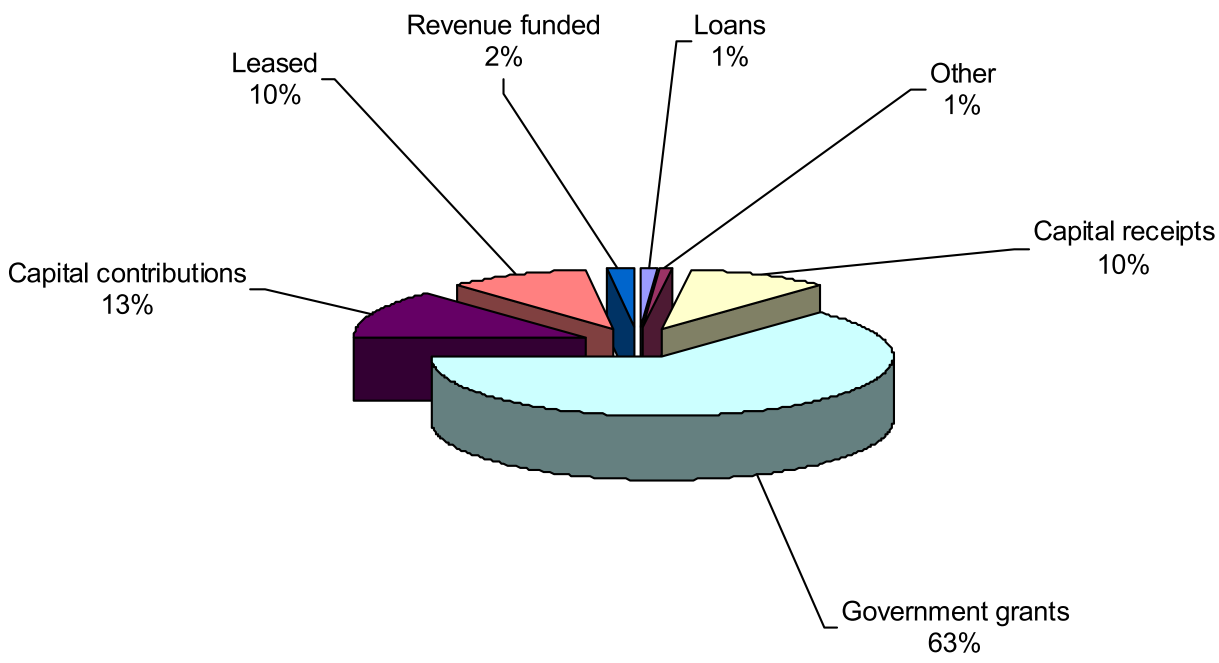
Alongside our day-to-day costs we spend money on assets such as buildings, roads, major maintenance, vehicles and information and communications technology (ICT). This is capital spending. During 2011/12, our actual capital spending was £52.988m (£68.616m in 2010/11). Of this we spent £14.2m on schools and £3.5m on other services for children and young people, including nurseries, children's centres and the youth service. We spent £26.9m on maintaining and improving our highways and transport services. The following table shows how we spent this money.

Scheme		2011/12 £millions	£millions
Children and young people	Removal and replacement of Temporary classrooms	0.447	
	Children's Centres- various sites	0.090	
	Basic Need classrooms - various sites	0.593	
	Oaklands Primary School Yeovil	0.362	
	Highbridge Churchfields Replacement School	2.432	
	Alterations to schools and other facitlities to improve childcare and access to activies outside the normal school day	0.518	
	Investment to provide a new post 16 centre and replace temporary classrooms at Frome College	1.001	
	General improvements to schools and other assets associated with the delivery of education	1.309	
	Investment in Information Technology to support education	0.238	
	Brymore School Major Refurbishments	0.902	
	Bridgwater site acquisition and siteworks	0.891	
	Bridgwater Swimming Pool	2.605	
	Bridgwater Leisure Box	3.823	
	Investment to improve sports facilities in schools	0.995	
	Investment in specialist support provision for children	0.705	
	Schools Access Initiative	0.513	
	Children's social care accommodation and ICT investment	0.296	17.720
Environment	New roads schemes to relieve congestion in Taunton	2.616	
	Traffic Management, Traffic signals and Street Lighting	1.387	
	Vehicles purchases including passenger transport	0.318	
	Sturctural repair of Rights of Way Network	0.172	
	Structural Improvements to bridges	1.476	
	Structural Improvements to roads	21.118	
	Investment in waste infrastructure including Sort It Plus and vehicles supported by Somerset Waste Partnership	2.799	
	Cutcome Workspace development and other projects to support the rural ecomony	0.574	30.460
Community services	Replacement of the adult social care client database	0.081	
	Improvements to facilities to support adult social care	0.294	
	Refurbishment of the County Museum in Taunton	0.733	
	Acquisition of Museum artefacts	0.122	
	Investment in Library RFID and building improvements	0.196	
	Completion of the construction and equipping of new archive building and museum storage	0.277	1.703
Resources	Relocation of PLUSS Workshop	0.329	
	Implementation of SMART Office flexible working capacity and other work at County Hall, Taunton	1.639	
	Investment in computer hardware and software	0.175	2.143
Other	Other projects		0.962
	Total capital spending		52.988

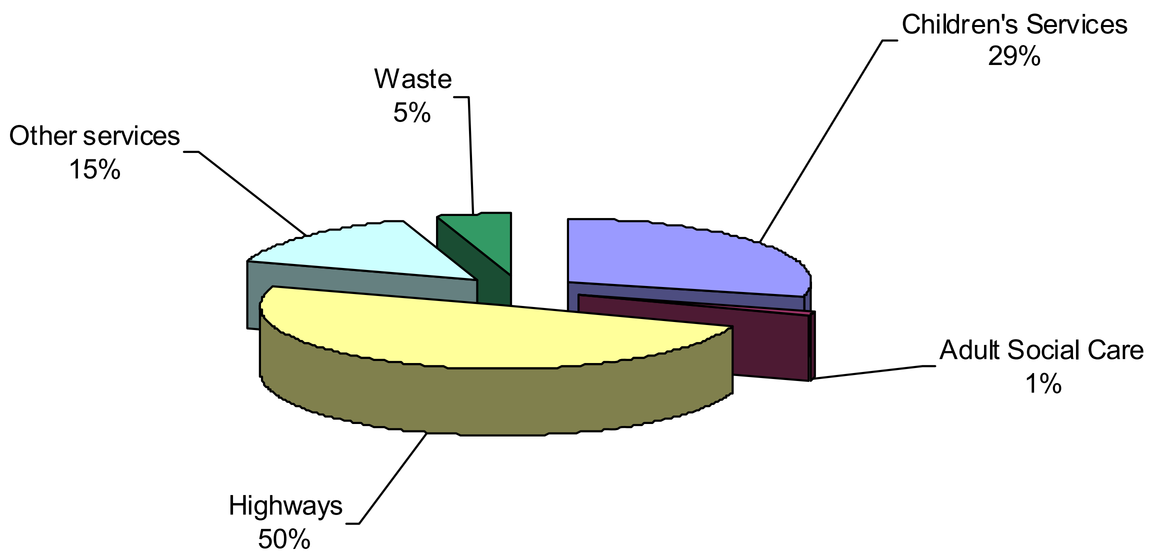
Analysis of total capital spending

During 2011/12, our total capital spending of £52.988 million included £6.326 million on assets we do not own.

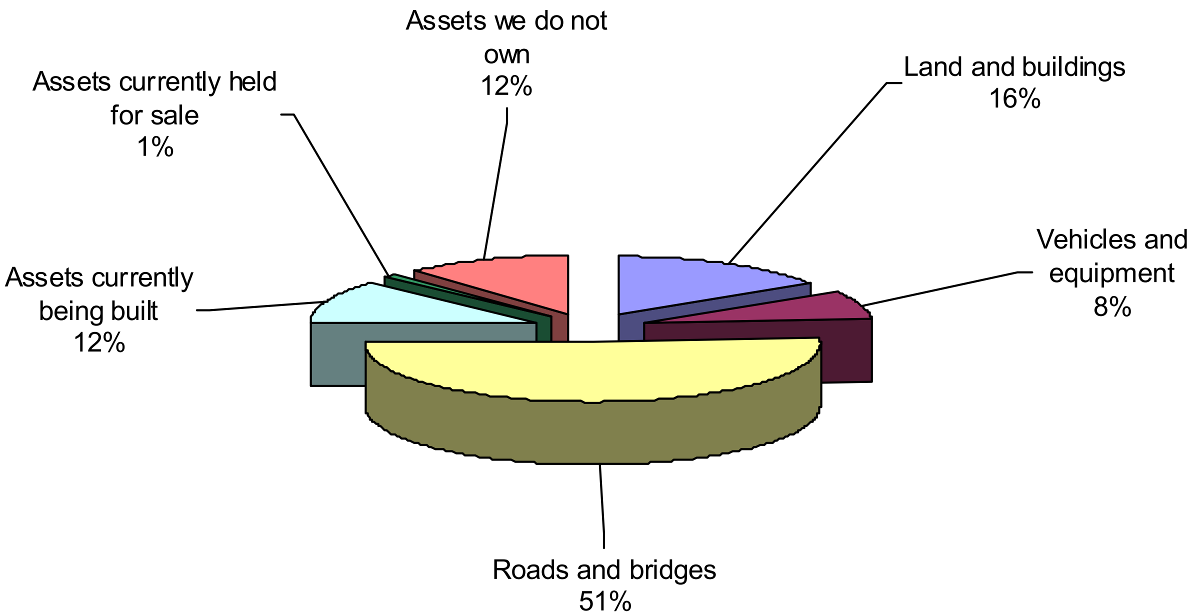
Where the money came from



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 2011/12, the total approval was £420 million (next year's approval is £483 million). On 31 March 2012, the amount we owed was £363.5 million (£362.5 million in 2010/11).

On 31 March 2011 £millions	Borrowing	On 31 March 2012 £millions
173.2	Public Works Loan Board (PWLB)	173.2
180.5	Other long-term loans	180.5
8.8	Other organisations investing in the Comfund (note 34)	9.8
362.5		363.5

In line with accounting practice, we must show the 'fair value' of our loans. The fair value of the PWLB loan is £217.350 million at 31 March 2012 (£186.772 million at 31 March 2011). The fair value of the other long-term loans is £238.981 million at 31 March 2012 (£205.147 million at 31 March 2011).

Usable Reserves

On 31 March we had the following reserves available:

On 31 March 2011 £millions	Reserves	On 31 March 2012 £millions
7.7	Capital reserves	14.6
8.5	Capital Grants/Contributions Unapplied Reserves	13.0
6.8	Revenue reserves set aside for capital	4.7
13.5	Other revenue reserves which we have set aside	17.4
29.5	Schools' carry-forward fund	25.7
3.5	Services' carry-forward fund	16.0
15.1	General reserves (see the note below)	24.2
84.6		115.6

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 2012/13 and the future

Financial outlook

The financial outlook for the Authority continues to be difficult with further significant cuts to our funding due in 2012/13. Beyond this point, the picture is less clear as the Government is currently reviewing how the Local Government sector is funded. The Government intends to free councils from their dependence upon Whitehall and empower them to act in the best interests of their residents. A key element of this is to provide a strong financial incentive to drive local economic growth through the localisation of business rates. There are significant challenges surrounding this that make it extremely hard to estimate its impact locally. We have therefore taken a prudent view that the funding reduction trend will continue for the foreseeable future.

Investment in Icelandic Banks

As has been previously reported, SCC had £25m at risk via five loans of £5m with three Icelandic banks, £10m with Landsbanki, £10m with Kaupthing Singer & Friedlander (KSF), and £5m with Glitnir.

The level of recovery from Landsbanki and Glitnir was always dependent on whether Local Authority deposits would be classed as ‘Preferential Deposits’ in the Icelandic courts. Along with other Local Authorities, SCC has worked with UK and Icelandic solicitors, co-ordinated by the Local Government Association to argue our case for this outcome.

In late 2011 the Icelandic Supreme Court upheld the earlier verdict of the District Court and stated that Local Authority Deposits were to be treated as “Preferential Deposits”, therefore we have reduced the impairment by another £5.810 million this year (see note 7). The impairment now stands at £1.876 million and we have already set aside the funds to cover this.

SCC continues to have significant difficulties in service operations provided by Southwest One and specifically in relation to SAP, the corporate finance, procurement and HR system. The Council's Audit Committee and S151 officer have pressed continually for improvements to services and SAP functionality and Southwest One continue to react to these difficulties. The resolution of these is now being taken up at Chief Executive level in both organisations.

Inspection and audit

We will make these accounts available for public inspection (from 9 July to 3 August) so that people who pay Council Tax and rates, and other members of the public, can ask the auditor any questions. This is a legal requirement, but my department will answer questions from anyone with an interest at any time. These accounts will be formally adopted by our Audit Committee on 27 September 2012.

Kevin Nacey CPFA
Director - Finance and Performance
(Chief Financial Officer)
27 September 2012

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 2012 and its income and spending for the year ending on that date.

K B Nacey

Kevin Nacey CPFA
Director – Finance and Performance
(Chief Financial Officer)
Somerset County Council
27 September 2012

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

Opinion on the Authority financial statements

I have audited the financial statements of Somerset County Council for the year ended 31 March 2012 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 2011/12.

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.

Respective responsibilities of the Director of Finance and Performance and auditor

As explained more fully in the Statement of the Director of Finance and Performance's Responsibilities, the Director of Finance and Performance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My 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 me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance and Performance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Somerset County Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my 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 I report by exception

I report to you if:

- in my 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;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects

Opinion on the pension fund financial statements

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets 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 2011/12.

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.

Respective responsibilities of the Director of Finance and Performance and auditor

As explained more fully in the Statement of the Director of Finance and Performance Responsibilities, the Director of Finance and Performance is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My 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 me 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, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my 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 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my 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.

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

Respective responsibilities of the Authority and the auditor

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

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

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

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

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

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

Basis for qualified conclusion

In considering the Authority's arrangements for securing financial resilience, I identified that savings and efficiencies to be delivered in conjunction with its strategic partner, SouthWest One, are falling significantly behind planned expectations and this is having an adverse impact upon the Authority's medium term financial plan.

Qualified conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, with the exception of the matter reported in the basis for qualified conclusion paragraph above, I am 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 2012

Certificate

I certify that I have completed the audit of the accounts of Somerset County Council and Somerset County Council Pension Fund in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Simon Garlick
District Auditor
Audit Practice of the Audit Commission
Collins House
Bishopstoke Road
Eastleigh
Hampshire
SO50 6AB

27 September 2012

Annual Governance Statement (2011/12)

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 agreed a 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 Stephen Morton Group Manager e-mail address smmorton@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 2012 and up to the date of approval of the statement of accounts.

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 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, SCC Business Plan 2011/12 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.

The Annual Report reviews our performance over the last year, highlighting some practical examples of our achievements. Scrutiny Committee reviews our performance and delivery of the plan's priorities and activities, receiving an outturn report on an annual basis.

Funding to carry out all these activities is agreed through the Medium Term Financial Plan (MTFP) which is a three year rolling programme, updated annually. 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. 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 show:

- how well we are achieving the ambitions in the County Plan and Business Plan activities;
- our performance against top targets;
- the results of monitoring the Risk Management Plan.

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. The Communications Team work with staff across the Council to develop proactive plans to promote service improvements and changes
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; and
- making available guidance that supports members and officers working within partnership arrangements.

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.

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 2012 confirmed that during the financial year 2011/12 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 Council will be appointing a new Standards Committee on a voluntary basis with effect from 1st July 2012 in response to changing legislative requirements. During the remainder of 2012/13 the new Committee will continue to promote high standards of behaviour by members and deal with formal complaints made against members under the new local Standards arrangements implemented by the Government. A new member Code of Conduct will also be introduced in the summer of 2012 together with new arrangements for handling complaints made against elected members. It is our aim to have one Code of Conduct for Standards arrangements which covers both the County Council and the districts councils in Somerset. When agreed, this will help ensure a consistent approach across local government for the whole county.

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.

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.

The Cabinet, as a result of a recommendation by the Strategic Management Board, 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. 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.

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 three years. Because of its size and complexities, the risks relating to this relationship are continuously monitored.

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.

A significant operational risk was the implementation in 2009/10 of SAP which has provided us with an integrated accounting, payroll and HR system. This risk was finally brought under an adequate level of control during 2010/11.There are still a number of areas that need to be improved to maximise the effectiveness of the system.

The Audit Committee met regularly throughout the year to carry out its role. Its functions are modelled on those recommended by CIPFA. It reviewed a number of areas of high impact risk including SAP implementation, disaster recovery and health and safety.

Our Internal Auditors, South West Audit Partnership and external auditors, the Audit Commission, 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 as at the 31 March 2012. 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.

Members also have training provided for them when necessary. This provision is to be enhanced in 2012/13 and beyond with a new Member Training and Development Strategy to be adopted in the summer of 2012. This will include revised induction arrangements for new members as we plan for the elections in 2013. On-going support to members including IT support, officer support and accommodation is all under review with a view to bringing forward improvements in advance of and following the 2013 election.

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 approves 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 2011/12 statement. The review took into account:

- Internal Audit's annual opinion report for 2011/12;
- the effectiveness of internal audit;
- external auditors' comments;
- comments from other review agencies and inspectorates;
- assurance reviews carried out by each directorate;
- 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 21 June 2012.
We have been advised on the implications of the result of the review of the effectiveness of the governance framework by management and lead members, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

Significant governance issues

During the year, the Chief Internal Auditor 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. Other key areas where action is being taken include:

- Resolving operational issues associated with the SAP system;
- Updating the Strategic Risk Register and linking this to our Business Plan.

The Internal Auditors were pleased to find that managers are committed to supporting the audit programme, are requesting audit work where there are areas of potential weakness and are addressing control weaknesses identified.

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 strengthen the control framework. These include:

- Terms of reference for the Standards Committee require updating for the provisions of the Localism Act;
- Member training about the provisions of the Localism Act;
- Alongside reviewing existing partnership arrangements, assign officer responsibility for partnership governance.

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 2012/13. The most notable of these is the reforming of the County Council as a leaner commissioning organisation. This will mean that many changes relating to governance will be required to ensure we are satisfied that both we and the organisations we work with continue to have adequate governance arrangements in place. We will monitor the progress of the Change Programme and will aim to ensure that our staff and members continue to have the capacity and skills they need to work. The Audit Committee will be keeping a watching brief to ensure this happens.

In addition, there will be other changes to the way we work in the future, these include the Localism Act, Community Budgets, the White Paper on Care Funding and merging some elements of our services with Public Health. A number of large projects are also still in progress and will continue to impact the Council in 2012/13, these include Building Schools for the Future, enabling the development of a new power station at Hinkley Point, enabling the delivery of high speed broadband across Somerset and the SMART Office project. 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
22 June 2012

Councillor John Osman
Leader of the Council
22 June 2012

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 2011/12: 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, 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 53 on page 111.

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.

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	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 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 2011/12, 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. As land is non-depreciating (due to land having an infinite life) the revaluation gain was linked to the assets building element (referred to under IFRS as the asset's 'main structure').

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:

<u>Community schools</u>

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.

<u>Foundation schools</u>

These schools are funded by the local authority, but the schools are owned and managed by the governing body or charitable foundation. Accordingly, the Foundation schools have not been recognised within our Balance Sheet.

<u>Voluntary aided (VA) schools</u>

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 VA schools have not been recognised within our Balance Sheet.

<u>Voluntary controlled (VC) schools</u>

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.

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 any schools that have converted to academy status.

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. For instance, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged 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

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 was recognised at the lower of its fair value or the present value of the minimum lease payments. The asset was 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 2011/12 (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.

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 actual use
Design and print	All based on actual use
Repairs and maintenance	Charged in line with actual spending
Property services	All based on floor area
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
Personnel department	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 and Long Term Contracts

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

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

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.

30 Heritage Assets

FRS 30 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) and therefore hold newly purchased collections at historic cost.

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 2011 & 2012

	Note	Schools General Fund Balance £m	Other General Fund Balance £m	Earmarked Reserves £m	Capital Receipts Reserve £m	Capital Grants & Contributions Unapplied £m	Total Usable Reserves £m	Unusable Reserves £m	Total Authority Reserves £m
Balance as at 1 April 2010 (Restated)		**30.608**	**14.146**	**19.008**	**9.352**	**3.835**	**76.949**	**272.552**	**349.501**
Movement in Reserves during 2010/11									
Surplus or deficit (-) on provision of services		-	18.969	-	-	-	18.969		18.969
Other Comprehensive Income and Expenditure	14/53	-	-	-	-	-	-	107.262	107.262
Total Comprehensive Income and Expenditure		**-**	**18.969**	**-**	**-**	**-**	**18.969**	**107.262**	**126.231**
Adjustments between accounting basis & funding basis under regulations	9	-	-14.398	-	-1.644	4.725	-11.317	11.317	-
Net Increase/Decrease (-) before transfers to Earmarked Reserves		**-**	**4.571**	**-**	**-1.644**	**4.725**	**7.652**	**118.579**	**126.231**
Transfers to/from (-) Earmarked Reserves	10	-1.151	-3.650	4.801	-	-	-	-	-
Increase/Decrease (-) in Year		**-1.151**	**0.921**	**4.801**	**-1.644**	**4.725**	**7.652**	**118.579**	**126.231**
Balance as at 31 March 2011 carried forward		**29.457**	**15.067**	**23.809**	**7.708**	**8.560**	**84.601**	**391.131**	**475.732**
Movement in Reserves during 2011/12									
Surplus or deficit (-) on provision of services		-	-169.460	-	-	-	-169.460		-169.460
Other Comprehensive Income and Expenditure	14/53	-	-	-	-	-	-	-166.583	-166.583
Total Comprehensive Income and Expenditure		**-**	**-169.460**	**-**	**-**	**-**	**-169.460**	**-166.583**	**-336.043**
Adjustments between accounting basis & funding basis under regulations	9	-	189.142	-	6.902	4.415	200.459	-200.459	-
Net Increase/Decrease (-) before transfers to Earmarked Reserves		**-**	**19.682**	**-**	**6.902**	**4.415**	**30.999**	**-367.042**	**-336.043**
Transfers to/from (-) Earmarked Reserves	10	-3.804	-10.546	14.350	-	-	-	-	-
Increase/Decrease (-) in Year		**-3.804**	**9.136**	**14.350**	**6.902**	**4.415**	**30.999**	**-367.042**	**-336.043**
Balance as at 31 March 2012		**25.653**	**24.203**	**38.159**	**14.610**	**12.975**	**115.600**	**24.089**	**139.689**

Balance Sheet as at 31 March 2012

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

1 April 2010 (Restated) £millions	31 March 2011 (Restated) £millions	Balance Sheet as at 31st March 2012	31 March 2012 £millions	Notes
1,170.549	1,107.458	Property, Plant & Equipment	892.384	26
0.816	1.174	Heritage assets	1.295	32
1.638	1.566	Intangible assets	2.272	27
11.968	8.190	Long term investments	5.594	34
27.075	25.978	Long term debtors	23.772	34
1,212.046	**1,144.366**	**Long term assets**	**925.317**	
101.405	114.508	Short term Investments	71.512	34
-	7.880	Assets held for sale	3.697	29
0.517	0.459	Inventories	0.602	36
61.071	53.098	Short term debtors	44.044	37
36.840	50.632	Cash and cash equivalents	148.323	44
199.833	**226.577**	**Current Assets**	**268.178**	
-94.205	-96.339	Short term creditors	-72.833	38
-14.117	-12.344	Capital Grants/Contributions Receipts in Advance	-23.459	41
-3.485	-4.277	Provisions	-4.701	40
-8.088	-8.854	Short term borrowing	-9.814	34
-	-	Long term borrowing repayable < 1 year	-15.127	34
-7.850	-4.989	Overdraft	-0.908	44
-127.745	**-126.803**	**Current Liabilities**	**-126.842**	
-0.768	-0.768	Provisions	-0.798	40
-357.804	-357.886	Long term borrowing repayable > I year	-342.882	34
-563.209	-394.495	Other long term liabilities	-570.086	39
-12.852	-15.259	Capital Grants/Contributions Receipts in Advance	-13.198	41
-934.633	**-768.408**	**Long term liabilities**	**-926.964**	
349.501	**475.732**	**Net Assets**	**139.689**	
		Usable reserves		
30.608	29.457	General Fund - Schools	25.653	10/42
14.146	15.067	General Fund - Other	24.203	42
19.008	23.809	Earmarked Reserves - set aside for revenue purposes	38.159	10/42
9.352	7.708	Capital Receipts Reserve	14.610	42
3.835	8.560	Capital Grants/Contributions Unapplied Reserve	12.975	42
76.949	**84.601**		**115.600**	
		Unusable reserves		
278.160	257.340	Revaluation Reserve	191.338	43
571.680	536.668	Capital Adjustment Account	405.714	43
-562.781	-394.074	Pensions Reserve	-564.657	43
0.431	1.756	Collection Fund Adjustment Account	2.829	43
-14.938	-10.559	Accumulated Compensated Absences Adjustment Account	-11.135	43
272.552	**391.131**		**24.089**	
349.501	**475.732**	**Total Reserves**	**139.689**	

Kevin Nacey CPFA, Director – Finance and Performance
27 September 2012

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

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

Comprehensive Income and Expenditure Statement

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

31 March 2011				31 March 2012			
£millions	£millions	£millions (Restated)	**Comprehensive Income and Expenditure Statement for the year ended 31 March 2012**	£millions	£millions	£millions	
Expenditure	**Income**	**Net**		**Expenditure**	**Income**	**Net**	**Notes**
3.533	-2.273	1.260	Central services to the public	2.497	-1.542	0.955	11
16.713	-2.460	14.253	Cultural and related services	25.228	-3.777	21.451	11
43.955	-15.694	28.261	Environmental and regulatory services	43.937	-18.422	25.515	11
8.646	-3.244	5.402	Planning services	7.534	-3.748	3.786	11
529.258	-412.269	116.989	Education and children's services	413.163	-303.412	109.751	11
67.905	-20.330	47.575	Highways and transport services	61.490	-8.028	53.462	11
18.258	-1.312	16.946	Housing services	15.284	-0.666	14.618	11
206.339	-67.868	138.471	Adult social care	201.226	-72.089	129.137	11
4.760	-0.001	4.759	Corporate and democratic core	4.561	-0.065	4.496	11
-	-95.038	-95.038	Non-distributed costs	0.033	-19.241	-19.208	11
899.367	**-620.489**	**278.878**	**Surplus (-) / Deficit on Continuing Operations**	**774.953**	**-430.990**	**343.963**	
75.504	-16.645	58.859	Other operating expenditure	223.635	-16.250	207.385	11/13
-	-2.253	-2.253	Reversal of Icelandic investment impairment	-	-5.810	-5.810	7
37.896	-3.646	34.250	Financing and investment income and expenditure	28.898	-3.729	25.169	15
4.536	-4.069	0.467	Surplus or deficit of discontinued operations	1.428	-1.078	0.350	6/11
-	-389.170	-389.170	Taxation and non-specific grant income	-	-401.597	-401.597	16
1,017.303	**- 1,036.272**	**-18.969**	**Surplus (-) or Deficit on Provision of Services**	**1,028.914**	**-859.454**	**169.460**	
		-2.328	Surplus (-) or Deficit on revaluation of non-current assets			-6.751	14
		-104.934	Actuarial gains (-) / losses on pension assets/liabilities			173.334	53
		-107.262	**Other Comprehensive Income and Expenditure**			**166.583**	
		-126.231	**Total Comprehensive Income and Expenditure**			**336.043**	

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.

2010/11 £millions		2011/12 £millions	Notes
-18.969	Net surplus (-) or deficit on the provision of services	169.460	
-69.587	Adjustments to net surplus or deficit on the provision of services for non cash movements	-249.153	**45**
43.828	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	54.968	**45**
-44.728	Net cash flows from Operating Activities	**-24.725**	**45**
30.500	Investing Activities	-75.247	**46**
-2.425	Financing Activities	-1.800	**47**
-16.653	**Net increase (-) or decrease in cash and cash equivalents**	**-101.772**	
28.990	**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**	**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: Heritage Assets – Change in Accounting Policy required by the Code of Practice for Local Authority Accounting (for 2011/12 only)

The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 introduced a change to the treatment in accounting for heritage assets held by the Authority. As set out in our summary of significant accounting policies, the Authority now requires heritage assets to be carried in the balance sheet at valuation.

Heritage Assets

For 2011/12, the Authority is required to change its accounting policy for heritage assets and recognise them at valuation or historic cost. Previously, heritage assets were either recognised as community assets (at cost) in the property, plant and equipment classification in the Balance Sheet or were not recognised in the Balance Sheet as it was not possible to obtain cost information on the assets. Community Assets (that are now to be classified as heritage assets) were held at historical cost. The Authority's accounting policies for recognition and measurement of heritage assets are set out in the Authority's summary of significant accounting policies (as disclosed on page 36).

In applying the new accounting policy, the Authority has identified that a number of coin hoards which were previously held as community assets within property, plant and equipment at £0.399 million should now be recognised as heritage assets. As it is not possible to obtain a valuation for these assets at a cost commensurate to the users of the financial statements these assets will continue to be carried in our accounts at historic cost.

The Authority will also recognise an additional £0.775 million of heritage assets that were not previously recognised in the Balance Sheet with a corresponding increase recognised in the Revaluation Reserve. The 1 April 2010 and 31 March 2011 Balance Sheets and 2010/11 comparative figures have therefore been restated in the 2011/12 Statement of Accounts to apply the new policy.

The effects of the restatement are as follows:

- At 1 April 2010, the carrying amount of the Heritage Assets is presented at its historic cost of £0.816 million. The element that was previously recognised in property, plant and equipment has been reclassified. The revaluation reserve has increased by £0.775million;

- The adjustments that have been made to that Balance Sheet over the version published in the 2010/11 Statement of Accounts are as follows:

	Opening Balance as at 1 April 2010 £millions	Restatement £millions	Restated Balance as at 1 April 2010 £millions
Property, Plant and Equipment	1,173.793	-0.041	1,173.752
Heritage Assets	-	0.816	0.816
Long Term Assets	1,173.793	0.775	1,174.568
Total Net Assets	**1,173.793**	**0.775**	**1,174.568**
Unusable Reserves	274.593	0.775	275.368
Total Reserves	**274.593**	**0.775**	**275.368**

Comprehensive Income and Expenditure Statement

Due to the indefinite economic lives of our heritage assets there is no requirement under the Code to charge depreciation through the Income and Expenditure Statement. During 2010/11, our non-current asset impairment review also failed to identify any physical deterioration or doubts to the authenticity of our heritage assets. There has therefore been no restatement to any of the lines on the Comprehensive Income and Expenditure Statement.

Movement in Reserves Statement – Unusable Reserves 2010/11

The restatement of the relevant lines of the Movement in Reserves Statement, as of 31 March 2011, as a result of the application of this new accounting policy is presented in the table below.

	As previously stated 31 March 2011 £millions	Restatement £millions	Restated Balance as at 31 March 2011 £millions
Balance as at the end of the previous reporting period - 31 March 2010	**274.593**	**0.775**	**275.368**
Surplus or Deficit on the Provision of Services	-	-	-
Other Comprehensive Income and Expenditure	107.262	-	107.262
Adjustments between the accounting basis and the funding basis under regulations	11.327	-	11.327
Increase/(decrease) in the year	**118.589**	**-**	**118.589**
Balance at the end of the current reporting period 31 March 2011	**393.182**	**0.775**	**393.957**

The resulting restated Balance Sheet for 31 March 2011 is provided on page 39. The adjustments that have been made to that Balance Sheet over the version published in the 2010/11 Statement of Accounts are shown in the following table:

	Opening Balance as at 31 March 2011 £millions	Restatement £millions	Restated Balance as at 31 March 2011 £millions
Property, Plant and Equipment	1,111.060	-0.399	1,110.661
Heritage Assets	-	1.174	1.174
Long Term Assets	1,111.060	0.775	1,111.835
Total Net Assets	**1,111.060**	**0.775**	**1,111.835**
Unusable Reserves	393.182	0.775	393.957
Total Reserves	**393.182**	**0.775**	**393.957**

The effect of the change in the accounting policy for 2010/11 has been that heritage assets are recognised at £1.174 million on the Balance Sheet resulting in an increase to the Revaluation Reserve of £0.775 million and property, plant and equipment being restated by the amount of heritage assets previously recognised at cost in community assets (a sub-classification of property, plant and equipment) of £0.399 million.

Note 2: Prior-period adjustment

During 2010/11, we identified a lease arrangement between ourselves (as lessor) and Somerset Care Ltd (lessee) for the use of a facility for adults with physical disabilities that had been reported incorrectly in our accounts since 2009/10. Under the Code of Practice, lease arrangements where the risks and rewards of ownership transfer to the lessee need to be accounted for in line with IAS17 and treated as a finance lease.

When a finance lease is identified the lessor is required to write-out the value of the leased property from its accounts, and recognise a long-term debtor for the minimum value of the discounted rental payments due over the period of the lease. As this arrangement had been missed during previous compliance checks, we had continued to report the lease as an operating lease and the leased property remained in our accounts.

Due to the value of the leased property, we have decided to account for this omission as a prior-period adjustment and restated our previous year comparatives in line with the requirements of the Code. As a result of the restatement, we will be required to initially de-recognise £3.203 million of Property, Plant and Equipment and recognise a long-term debtor of £0.387 million. The 1 April 2010 and 31 March 2011 Balance Sheets and 2010/11 comparative figures have thus been restated in the 2011/12 Statement of Accounts to apply the new policy.

The effects of the restatement are as follows:

Changes to the Balance Sheet (page 39)

Opening 1 April 2010 Balance Sheet

	2010/11 Statements £millions	Adjustments Made £millions
Property, Plant and Equipment	1,173.793	-3.203
Long Term Debtors	26.688	0.387
Capital Receipts Reserve	9.343	0.009
General Fund - Other	14.155	-0.009
Capital Adjustment Account	574.496	-2.816

31 March 2011 Balance Sheet

	2010/11 Statements £millions	Adjustments Made £millions
Property, Plant and Equipment	1,111.060	-3.203
Long Term Debtors	25.601	0.377
Capital Receipts Reserve	7.689	0.019
General Fund - Other	15.086	-0.019
Capital Adjustment Account	539.494	-2.826

Changes to the Income & Expenditure Statement (page41)

2010/11 Comprehensive Income & Expenditure Statement

	2010/11 Statements £millions	Adjustments Made £millions
Financing and Investment Income and Expenditure	34.240	0.010

Changes to the Movement in Reserves Statement (page 37)

Opening 1 April 2010 Movement in Reserves Statement – Usable Reserves

	As previously stated 31 March 2010 £millions	Restatement £millions	Restated Balance as at 31 March 2010 £millions
Balance as at the end of the previous reporting period - 1 April 2009	**82.064**	**-**	**82.064**
Surplus or Deficit (-) on the Provision of Services	-66.635	-2.816	-69.451
Other Comprehensive Income and Expenditure	-	-	-
Adjustments between the accounting basis and the funding basis under regulations	61.520	2.816	64.336
Increase/decrease (-) in the year	**-5.115**	**-**	**-5.115**
Balance at the end of the current reporting period 31 March 2010	**76.949**	**-**	**76.949**

31 March 2011 Movement in Reserves Statement – Usable Reserves

	As previously stated 31 March 2011 £millions	Restatement £millions	Restated Balance as at 31 March 2011 £millions
Balance as at the end of the previous reporting period - 31 March 2010	**76.949**	**-**	**76.949**
Surplus or Deficit (-) on the Provision of Services	18.979	-0.010	18.969
Other Comprehensive Income and Expenditure	-	-	-
Adjustments between the accounting basis and the funding basis under regulations	-11.327	0.010	-11.317
Increase/decrease (-) in the year	**7.652**	**-**	**7.652**
Balance at the end of the current reporting period 31 March 2011	**84.601**	**-**	**84.601**

Opening 1 April 2010 Movement in Reserves Statement – Unusable Reserves

	As previously stated 31 March 2010 £millions	Restatement £millions	Restated Balance as at 31 March 2010 £millions
Balance as at the end of the previous reporting period - 1 April 2009	**564.564**	**-**	**564.564**
Surplus or Deficit (-) on the Provision of Services	-	-	-
Other Comprehensive Income and Expenditure	-228.451	-	-228.451
Adjustments between the accounting basis and the funding basis under regulations	-61.520	-2.816	-64.336
Increase/decrease (-) in the year	**-289.971**	**-2.816**	**-292.787**
Balance at the end of the current reporting period 31 March 2010	**274.593**	**-2.816**	**271.777**

31 March 2011 Movement in Reserves Statement – Unusable Reserves

	As previously stated 31 March 2011 £millions	Restatement £millions	Restated Balance as at 31 March 2011 £millions
Balance as at the end of the previous reporting period - 31 March 2010	**274.593**	**-2.816**	**271.777**
Surplus or Deficit (-) on the Provision of Services	-	-	-
Other Comprehensive Income and Expenditure	107.262	-	107.262
Adjustments between the accounting basis and the funding basis under regulations	11.327	-0.010	11.317
Increase/decrease (-) in the year	**118.589**	**-0.010**	**118.579**
Balance at the end of the current reporting period 31 March 2011	**393.182**	**-2.826**	**390.356**

Changes to the Cash Flow Statement (page 42)

Opening 1 April 2010 Cash Flow Statement

	As previously stated 31 March 2010 £millions	Restatement £millions	Restated Balance as at 31 March 2010 £millions
Net surplus (-) or defecit on the provision of services	66.635	2.807	69.442
Adjustments to net surplus or deficit on the provision of services for non-cash movements	-112.725	-2.807	-115.532
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	31.669	-	31.669
Net cash flows from Operating Activities	-14.421	-	-14.421
Investing Activities	-26.536	-	-26.536
Financing Activities	35.553	-	35.553
Net increase (-) or decrease in cash and cash equivalents	**-5.404**	**-**	**-5.404**
Cash and cash equivalents at the beginning of the reporting period	**23.586**	**-**	**23.586**
Cash and cash equivalents at the end of the reporting period	**28.990**	**-**	**28.990**

31 March 2011 Cash Flow Statement

	As previously stated 31 March 2011 £millions	Restatement £millions	Restated Balance as at 31 March 2011 £millions
Net surplus (-) or defecit on the provision of services	-18.979	0.010	-18.969
Adjustments to net surplus or deficit on the provision of services for non-cash movements	-69.577	-	-69.577
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	43.828	-	43.828
Net cash flows from Operating Activities	-44.728	0.010	-44.718
Investing Activities	30.500	-	30.500
Financing Activities	-2.425	-0.010	-2.435
Net increase (-) or decrease in cash and cash equivalents	**-16.653**	**-**	**-16.653**
Cash and cash equivalents at the beginning of the reporting period	**28.990**	**-**	**28.990**
Cash and cash equivalents at the end of the reporting period	**45.643**	**-**	**45.643**

Note 3: Accounting Standards That Have Been Issued but Have Not Yet Been Adopted

The Authority has yet to adopt the following accounting standard:

IFRS 7 Financial Instruments: Disclosures - The objective of this IFRS requires entities (from 1 April 2012) to provide disclosures in their financial statements that enable users to evaluate:

(a) The significance of financial instruments for the Authority’s financial position and performance; and
(b) The nature and extent of risks arising from financial instruments to which the Authority is exposed to during the period and at the reporting date, and how we manage those risks.

It is not anticipated that this standard will have a material impact on the authorities 2012/13 financial statements.

Note 4: 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 5: 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 2012 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 £1,315,617 for every year that useful lives had to be reduced.
Provisions	The Authority has made a provision of £341,000 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 £34,100.

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 £27,656,000.
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 £800,098.03.	If our assumptions are incorrect by 10% the increase or decrease in our impairment would be approximately £80,000.
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.	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.
	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.	1) If actuals differ from the sample average, the accrual may be substantially under or over estimated.
	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.	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) 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.	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.

Note 6: Discontinued Operations

2010/11 Total Expenditure £millions	2010/11 Turnover (Income) £millions	2010/11 Surplus (-) or deficit £millions	Discontinued operations	2011/12 Total Expenditure £millions	2011/12 Turnover (Income) £millions	2011/12 Surplus (-) or deficit £millions
2.876	-2.423	0.453	SCS Catering	0.959	-0.681	0.278
1.660	-1.646	0.014	SCS Cleaning	0.469	-0.397	0.072
4.536	**-4.069**	**0.467**	**Surplus (-) or deficit on trading activities**	**1.428**	**-1.078**	**0.350**

The SCS Catering and Cleaning Trading Units previously provided catering and cleaning services to the Authority. These services were externalised in year and the trading units ceased operating from the 1 August 2011.

Note 7: 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 better likely return on the money that has been tied up in Iceland. We have therefore reduced our impairment by £5.810m. This has reduced our liability in the Balance Sheet and increased the value of our investments.

Note 8: Events after the Balance Sheet Date

We continue to monitor the progress of 5 schools that are likely to move to Academy status before the end of September. This will mean that in 2012/13 our Balance Sheet will reduce by £10.462 million in respect of the assets that are transferring with them. Their reserves will also move with them but at this stage it is not possible to give a reasonable estimate of what these reserve balances will be.

We have received another £2.308 million from our Icelandic investments. This has not had a material effect on our impairment.

Note 9: 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 2012	General Fund Balance £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	51.913	-	-	51.913	-51.913	-
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	-41.983	-	41.983	-	-	-
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	-	3.045	6.326	-6.326	-
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	-	-	-40.613	-40.613	40.613	-
Adjustments involving the Financial Instruments Adjustment Account:						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	-	-	-	-	-	-
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 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	0.576	-	-	0.576	-0.576	-
Total adjustments between accounting basis & funding basis under regulations	**189.142**	**6.902**	**4.415**	**200.459**	**-200.459**	**-**

Adjustments between accounting basis and funding basis under regulations for the year ended 31 March 2011	General Fund Balance £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	59.864	-	-	59.864	-59.864	-
Charges for impairment of non current assets held for sale	2.936	-	-	2.936	-2.936	-
Revaluation losses on property, plant and equipment	1.246	-	-	1.246	-1.246	-
Capitalised redundancy costs	1.064	-	-	1.064	-1.064	-
Amortisation of intangible assets	0.071	-	-	0.071	-0.071	-
Capital grants and contributions	-40.763	-	40.763	-	-	-
Movement in the donated assets account	-	-	-	-	-	-
Reduction of Icelandic Investment Impairment	-2.253	-	-	-2.253	2.253	-
Revenue expenditure funded from capital under statute	5.403	-	-	5.403	-5.403	-
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	56.346	-	-	56.346	-56.346	-
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement						
Statutory provision for the financing of capital investment	-20.506	-	-	-20.506	20.506	-
Capital expenditure charged against the General Fund	-3.198	-	1.371	-1.827	1.827	-
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	-5.229	5.229	-	-	-	-
Use of the capital receipts reserve to finance new capital expenditure	-	-6.802	-	-6.802	6.802	-
Principal repayments transferred to the capital receipts reserve	-	0.027	-	0.027	-0.027	
Contribution from the capital receipts reserve towards administration costs of non current asset disposals	0.098	-0.098	-	-	-	-
Adjustments involving the Capital Grants Unapplied Reserve:						
Use of the capital grants unapplied reserve to finance new capital expenditure	-	-	-37.409	-37.409	37.409	-
Adjustments involving the Financial Instruments Adjustment Account:						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	-	-	-	-	-	-
Adjustments involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	-35.441	-	-	-35.441	35.441	-
Employer's pension contributions and direct payments to pensioners payable in the year	-28.332	-	-	-28.332	28.332	-
Adjustments involving the Collection Fund Adjustment Account:						
Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	-1.325	-	-	-1.325	1.325	-
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	-4.379	-	-	-4.379	4.379	-
Total adjustments between accounting basis & funding basis under regulations	**-14.398**	**-1.644**	**4.725**	**-11.317**	**11.317**	-

Note 10: 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 2011/12.

	Balance as at 1 April 2010	Transfers Out 2010/11	Transfers In 2010/11	Net Movement 2010/11	Balance at 31 March 2011	Transfers Out 2011/12	Transfers In 2011/12	Net Movement 2011/12	Balance at 31 March 2012
	£millions	**£millions**	**£millions**	**£millions**	**£millions**	**£millions**	**£millions**	**£millions**	**£millions**
General Fund:									
Balances held by schools under a scheme of delegation	30.608	-31.442	30.291	-1.151	29.457	-29.765	25.961	-3.804	25.653
Reserves set aside for revenue purposes	19.008	-7.381	12.182	4.801	23.809	-12.804	27.154	14.350	38.159
Total	**49.616**	**-38.823**	**42.473**	**3.650**	**53.266**	**-42.569**	**53.115**	**10.546**	**63.812**

Note 11: 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.

2010/11 (Restated) Spending less income £millions		2011/12 Total spending £millions	2011/12 Total income £millions	2011/12 Spending less income £millions
	Central services to the public			
0.584	Registration of births, deaths and marriages	1.109	-0.845	0.264
0.354	Cost of elections	0.032	-	0.032
0.290	Emergency planning	0.340	-0.136	0.204
-0.127	Local land charges	0.035	-0.243	-0.208
-0.623	Grants (including citizens advice bureaus)	-	-	-
0.856	Coroner's court	0.771	-	0.771
-0.074	Other court services	0.210	-0.318	-0.108
1.260		**2.497**	**-1.542**	**0.955**
	Cultural and related services			
3.436	Culture and heritage	11.101	-0.567	10.534
2.364	Open spaces	2.650	-0.539	2.111
-0.045	Recreation and sport	3.137	-1.588	1.549
1.465	Tourism	0.058	-0.008	0.050
7.033	Library service	8.282	-1.075	7.207
14.253		**25.228**	**-3.777**	**21.451**
	Environmental services			
1.218	Agricultural services	0.321	-0.611	-0.290
0.017	Coast protection	0.124	-	0.124
-0.037	Flood defence	0.081	-0.029	0.052
0.775	Community safety - safety services	0.147	-0.025	0.122
0.183	Community safety - crime reduction	0.222	-0.003	0.219
2.809	Regulatory services	2.825	-0.753	2.072
-1.271	Waste collection	15.091	-16.778	-1.687 *
9.511	Waste disposal	10.290	-0.026	10.264
-0.014	Trade waste	-	-0.060	-0.060
15.070	Recycling	14.836	-0.137	14.699
28.261		**43.937**	**-18.422**	**25.515**
	Planning and development services			
0.826	Planning policy	1.431	-1.497	-0.066
0.061	Environmental initiatives	0.126	-0.119	0.007
1.852	Economic development	3.151	-1.451	1.700
0.576	Development control	0.755	-0.084	0.671
0.051	Economic research	0.266	-0.210	0.056
0.085	Business support	0.327	-0.315	0.012
1.951	Community development	1.478	-0.072	1.406
5.402		**7.534**	**-3.748**	**3.786**
	Education services			
0.060	Early Years (formerly nurseries)	29.500	-21.522	7.978
36.604	Primary schools	164.689	-171.074	-6.385
14.449	Secondary schools	115.253	-90.920	24.333
5.572	Special schools	19.499	-7.741	11.758
2.276	Services to young people	4.863	-0.416	4.447
19.110	Other school-related education functions	30.819	-8.677	22.142
78.071		**364.623**	**-300.350**	**64.273**
127.247		**443.819**	**-327.839**	**115.980**

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

Note 11 (continued)

2010/11 (Restated) Spending less income £millions		2011/12 Total spending £millions	Total income £millions	Spending less income £millions
	Children's social care			
11.989	Service strategy inc commissioning	15.809	-0.875	14.934
17.828	Children looked after	24.325	-0.703	23.622
3.108	Familty support services	3.777	-0.451	3.326
0.927	Youth justice	1.934	-0.877	1.057
0.046	Children and young people's safety	0.115	-0.033	0.082
0.029	Asylum seekers	0.082	-0.004	0.078
4.991	Other children and family services	2.498	-0.119	2.379
38.918		**48.540**	**-3.062**	**45.478**
	Highways and transport services			
8.320	Transport, planning, policy and strategy	8.154	-2.615	5.539
1.167	Highways structural maintenance	1.615	-0.073	1.542
15.404	Capital charges relating to construction	16.719	-	16.719
6.928	Environment safety & routine maintenance	11.225	-3.627	7.598
4.621	Street lighting	4.191	-0.025	4.166
2.221	Managing traffic and road safety	2.499	-0.108	2.391
-	Parking	0.082	-0.269	-0.187
6.468	Public transport	15.296	-1.302	13.994
2.446	Winter maintenance	1.709	-0.009	1.700
47.575		**61.490**	**-8.028**	**53.462**
	Housing services			
16.781	Supporting people	15.168	-0.648	14.520
0.165	Other housing	0.116	-0.018	0.098
16.946		**15.284**	**-0.666**	**14.618**
	Adult social care			
0.126	Service strategy	0.123	-	0.123
71.406	Older people	97.112	-34.980	62.132
12.889	Adults with physical disabilities	13.275	-1.634	11.641
44.613	Adults with learning disabilities	64.134	-21.035	43.099
8.970	Adults with mental-health needs	11.560	-1.778	9.782
0.467	Other adult services	15.022	-12.662	2.360
138.471		**201.226**	**-72.089**	**129.137**
	Corporate and democratic core			
2.570	Democratic representation and management	1.902	-	1.902
2.189	Corporate management	2.659	-0.065	2.594
4.759		**4.561**	**-0.065**	**4.496**
	Non-distributed costs			
-95.038	(we cannot share between services)	0.033	-19.241	-19.208
278.878	**Total continuing services**	**774.953**	**-430.990**	**343.963**
0.467	**Total discontinued services -** Note 6	1.428	-1.078	0.350
279.345	**Total spending on services**	**776.381**	**-432.068**	**344.313**

Note 12: 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 2011/12

	Adult Social Care £ millions	Learning Disabilities £ millions	Environment £ millions	Safeguarding & Care £ millions	Schools & Early Years £ 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 grants	-	0.111	4.184	1.031	238.134	47.524	290.984
Total Income	**66.738**	**4.118**	**37.258**	**2.598**	**260.269**	**99.207**	**470.188**
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	77.989	101.044	416.249
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**	**264.848**	**166.776**	**771.409**
Net cost of services	**86.417**	**29.684**	**63.857**	**49.115**	**4.579**	**67.569**	**301.221**

Directorate Income and Expenditure 2010/11

	Adult Social Care £ millions	Learning Disabilities £ millions	Commissioning & Care £ millions	Environment £ millions	Childrens Social Care £ millions	Schools £ millions	Other Direct Services £ millions	Total £ millions
Fees, charges & other service income	61.068	4.216	7.550	43.758	3.020	34.940	19.090	173.642
Government grants	0.358	0.139	1.002	4.008	2.385	286.101	94.799	388.792
Total Income	**61.426**	**4.355**	**8.552**	**47.766**	**5.405**	**321.041**	**113.889**	**562.434**
Employee expenses	16.539	30.019	1.685	18.695	19.280	240.510	53.999	380.727
Other operating expenses	129.707	3.537	32.049	90.459	20.236	80.292	97.325	453.605
Support Service Recharges	10.583	6.692	-2.684	3.098	4.011	7.769	1.046	30.515
Total operating expenses	**156.829**	**40.248**	**31.050**	**112.252**	**43.527**	**328.571**	**152.370**	**864.847**
Net cost of services	**95.403**	**35.893**	**22.498**	**64.486**	**38.122**	**7.530**	**38.481**	**302.413**

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.

2010/11 £ millions	Reconciliation to Net Cost of Services in Comprehensive Income & Expenditure Statement	2011/12 £ millions
302.413	Cost of Service in Service Analysis	**301.221**
-96.129	Add services not included in main analysis	-11.632
72.594	Add amounts not in management reports but needed for I&E	54.374
-	Remove amounts reported to management not included in Comprehensive Income& Expenditure Statement	-
278.878	**Net Cost of Services in Comprehensive Income & Expenditure Statement**	**343.963**

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.

2011/12

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	179.204	-20.011	3.951	-1.078	-	162.066	1.078	163.144
Surplus or deficit on associates and joint ventures	-	-	-	-	-	-	-	0.000
Interest and investment income	-	-	-	-	-	-	3.729	3.729
Income from council tax	-	-	-	-	-	-	303.751	303.751
Government grants and contributions	290.984	-	-	-	-	290.984	97.846	388.830
Total Income	**470.188**	**-20.011**	**3.951**	**-1.078**	**-**	**453.050**	**406.404**	**859.454**
Employee expenses	325.941	-	0.576	-	5.942	332.459	-	332.459
Other service expenses	416.249	-31.643	-1.426	-1.428	23.277	405.029	1.235	406.264
Support service recharges	29.219	-	-	-	-29.219	0.000	0.000	0.000
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	**771.409**	**-31.643**	**58.675**	**-1.428**	**0.00000**	**797.013**	**231.901**	**1,028.914**
Surplus or deficit on the provision of services	**301.221**	**-11.632**	**54.724**	**-0.350**	**0.000**	**343.963**	**-174.503**	**169.460**

2010/11

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	173.642	95.038	0.315	-	-	268.995	-	268.995
Surplus or deficit on associates and joint ventures	-	-	-	-	-	-	-	-
Interest and investment income	-	-	-	-	-	-	3.646	3.646
Income from council tax	-	-	-	-	-	-	298.203	298.203
Government grants and contributions	388.792	-	-	-	-	388.792	90.967	479.759
Total Income	**562.434**	**95.038**	**0.315**	**-**	**-**	**657.787**	**392.816**	**1050.603**
Employee expenses	380.727	-	4.379	-	6.38	391.489	-	391.489
Other service expenses	453.605	-1.091	-0.993	0.004	24.132	475.657	4.483	480.140
Support service recharges	30.515	-	-		-30.515	-	-	-
Depreciation, amortisation and impairment	-	-	69.519	-	-	69.519	0.683	70.202
Interest payments	-	-	-	-	-	-	37.896	37.896
Precepts & levies	-	-	-	-	-	-	0.681	0.681
Payments to Housing Capital Receipts Pool	-	-	-	-	-	-	-	-
Gain or Loss on disposal of fixed assets	-	-	-	-	-	-	51.226	51.226
Total operating expenses	**864.847 -**	**1.091**	**72.905**	**0.004**	**-**	**936.665**	**94.969**	**1031.634**
Surplus or deficit on the provision of services	**302.413**	**-96.129**	**72.590**	**0.004**	**-**	**278.878**	**-297.847**	**-18.969**

Note 13: Other Operating Expenditure

2010/11 (Restated) £millions		2011/12 £millions
51.226	(Gain)/losses on the disposal of non-current assets	206.574
2.936	Loss on the revaluation of current assets held for sale	0.036
1.064	Capitalised redundancy costs	-
2.952	(Surplus) or deficit from trading activities (see note 17)	-0.219
	Levies:	
0.598	- Environment Agencies	0.599
0.014	- Local Strategic Partnership	-
-	- Devon and Severn IFCA	0.117
0.069	- Magistrates Courts	0.070
-	- South West Councils	0.182
-	Other operating expenditure	0.026
58.859		**207.385**

The loss on the disposal of non-current assets of £206.310 million has mainly occurred due to the transfer of 21 schools to Academy status during 2011/12. These schools are being transferred on a leasehold arrangement for a peppercorn rent which has resulted in a net loss on these particular assets of £205.818 million.

Note 14: Surplus or deficit on revaluation of fixed assets

2010/11 £millions		2011/12 £millions
-7.841	Revaluations gains credited to the Revaluation Reserve	-7.134
5.513	Impairment losses charged to the Revaluation Reserve	0.383
-2.328		-6.751

Note 15: 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.

2010/11 £millions		2011/12 £millions
16.638	Interest payable and similar charges	16.878
21.258	Pensions interest cost and expected return on pensions assets	12.020
-3.646	Interest receivable and similar income	-3.729
34.250		**25.169**

Note 16: Taxation and Non-Specific Grant Income

2010/11 £millions		2011/12 £millions
-202.240	Council Tax income	-204.325
-95.963	National Non-Domestic Rates	-99.426
-50.204	Non-ringfenced government grants	-55.863
-40.763	Capital grants and contributions	-41.983
-389.170		**-401.597**

Note 17: Trading Operations

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

2010/11 Total Expenditure £millions	2010/11 Turnover (Income) £millions	2010/11 Surplus (-) or deficit £millions	Trading unit	2011/12 Total Expenditure £millions	2011/12 Turnover (Income) £millions	2011/12 Surplus (-) or deficit £millions
0.243	-0.279	-0.036	Charterhouse	0.303	-0.301	0.002
4.206	-1.461	2.745	Dillington House	1.421	-1.414	0.007
1.281	-1.360	-0.079	Kilve	1.739	-1.642	0.097
3.119	-3.178	-0.059	Legal Services	3.210	-3.306	-0.096
0.408	-0.406	0.002	Resources 4 Learning	0.405	-0.378	0.027
7.972	-7.603	0.369	Somerset Skills and Learning	7.165	-7.507	-0.342
1.773	-1.733	0.040	Somerset Music	1.228	-1.092	0.136
0.595	-0.625	-0.030	Wyvern Nursery Group	0.560	-0.610	-0.050
19.597	**-16.645**	**2.952**	**Surplus (-) or deficit on trading activities**	**16.031**	**-16.250**	**-0.219**

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 free musical and vocational tuition through open-access programmes to parents, families and carers of pupils in year 3 of primary school. The service also:

- provides the national curriculum for music in schools that request it;
- runs musical performances and opportunities from local through to international levels;
- provides extended opportunities for music education and performance through music centres;
- manages the County Youth Orchestra, Concert Band and Choir;
- gives advice and support on music to us; and
- provides low-cost instrument hire to parents, families and carers of pupils in Somerset.

Wyvern Nursery Group provides childcare places for children of our employees, other local public-sector employees and members of the local community.

Note 18: 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.

2010/11 £millions	Integrated Community Equipment Service (previously known as the Joint Equipment Service)	2011/12 £millions
	Income from:	
-1.198	Community Services Directorate	-1.199
-0.152	Children and Young People Directorate	-0.185
-1.253	NHS Somerset (Including Continuing Healthcare Income)	-1.195
-0.005	Other Income	-0.003
-0.092	Other Grant Income	-0.038
-2.700	Total income	-2.620
	Less the following spending:	
2.647	Equipment, delivery costs, minor work	2.666
0.086	Management and administration	0.086
2.733	Total spending	2.752
0.033	**Overspending or underspending (-)**	**0.132**

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.

2010/11 £millions	Substance Misuse (previously known as the Adult Drug Treatment Service bu	2011/12 £millions
	Income from:	
-0.921	Community Services Directorate	-0.932
-4.138	NHS Somerset (including National Treatment Agency)	-3.969
-0.036	Avon and Somerset Probation Service	-0.036
-0.058	Avon and Somerset Constabulary	-0.058
-	Crime and Disorder Reduction Partnerships	-
-0.299	Home Office grant	-0.278
-0.060	Other grants	0.000
-0.166	Previous year's funding brought forward	-0.334
-5.678	Total income	-5.607
	Less the following spending:	
4.047	Turning Point (Including Community Access Programming)	4.117
0.270	Pharmacy related spending	0.213
0.092	Probation	0.088
0.936	Other spending	1.048
5.345	Total spending	5.466
-0.333	**Overspending or underspending (-)**	**-0.141**

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

2010/11 £millions	Learning Disabilities Service	2011/12 £millions
	Income from:	
-36.029	Community Services Directorate	-37.711
-0.420	Pensions Equalisation Reserve	-0.405
-14.839	Somerset Primary Care Trust	-15.558
-7.720	Income from charges and grant income	-7.539
-59.008	Total income	-61.213
	Less the following spending:	
23.570	Purchasing (independent sector)	24.836
9.631	Residential services	9.559
15.948	Supported housing	15.896
6.321	Day services	5.890
3.125	Community teams	2.980
58.595	Total spending	59.161
-0.413	**Overspending or underspending (-)**	**-2.052**

Note 19: Members' Allowances

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

2010/11 £millions		2011/12 £millions
0.568	Basic Allowance	0.569
0.188	Special Responsibility Allowance	0.156
0.047	Travel and Subsistence Expenses	0.046
0.015	Payments to Co-optees	0.013
0.818		**0.784**

Note 20: 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 2012

2010/11			2011/12	
Number of employees			Number of employees	
Schools	Non-schools	Employee pay bands	Schools	Non-schools
102	36	£50,000 to £54,999	74	29
72	20	£55,000 to £59,999	63	14
29	19	£60,000 to £64,999	24	15
12	11	£65,000 to £69,999	7	2
5	10	£70,000 to £74,999	3	5
11	4	£75,000 to £79,999	3	3
5	14	£80,000 to £84,999	2	8
2	2	£85,000 to £89,999	4	-
-	2	£90,000 to £94,999	1	1
-	3	£95,000 to £99,999	-	-
5	-	£100,000 to £104,999	-	-
1	-	£105,000 to £109,999	1	-
-	1	£115,000 to £119,999	-	-
-	1	£120,000 to £124,999	-	-
-	-	£140,000 to £144,999	-	1
-	-	£145,000 to £149,999	-	1
-	1	£155,000 to £159,999	-	-
-	1	£160,000 to £164,999	-	1
-	1	£205,000 to £209,999	-	-

The following tables set out the salaries and wages our senior officers earned during 2010/11 and 2011/12. 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 2011

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 2010/11 £	Employer's pension contributions £	Total wages and benefits including pension contributions 2010/11 £
Chief Executive						
Sheila Wheeler	160,000.00	-	26.20	160,026.20	24,159.96	184,186.16
Previous Corporate Director – Children's Services	15,376.58	-	-	15,376.58	2,369.59	17,746.17
Interim Corporate Director – Children's Services - note 1	-	-	-	-	-	-
New Corporate Director – Children's Services - note 1	69,000.00	-	-	69,000.00	10,419.00	79,419.00
Corporate Director – Community Services	121,704.00	-	-	121,704.00	18,377.28	140,081.28
Corporate Director – Environment - note 2	91,278.00	116,168.59	135.15	207,581.74	13,782.96	221,364.70
Corporate Director – Resources - note 3	96,512.58	-	73.05	96,585.63	14,573.38	111,159.01
Interim Business Improvement Director - note 4	-	-	-	-	-	-
Service Director for:						
- Children's Social Care	87,009.00	-	107.75	87,116.75	13,138.32	100,255.07
- Service Partnership	82,533.00	-	102.15	82,635.15	12,462.48	95,097.63
- Adult Social Care	82,295.05	-	70.50	82,365.55	12,426.48	94,792.03
- Community Regeneration	74,397.00	-	-	74,397.00	11,233.92	85,630.92
- Learning Disabilities	70,665.00	-	26.95	70,691.95	10,670.40	81,362.35
- Partnerships	70,665.00	-	-	70,665.00	10,670.40	81,335.40
- Highways and Passenger Transport	87,009.05	-	136.05	87,145.10	13,138.32	100,283.42
- Physical Regeneration	82,533.00	-	-	82,533.00	12,462.48	94,995.48
- Environmental Management and Regeneration	80,295.00	-	-	80,295.00	12,124.44	92,419.44
- Transformation - note 5	79,648.78	75,975.36	31.80	155,655.94	12,026.96	167,682.90
- HR and Organisational Development	84,771.00	-	32.05	84,803.05	12,800.40	97,603.45
- Client Services	82,533.00	-	33.55	82,566.55	12,462.48	95,029.03
- County Solicitor/ Monitoring Officer	82,533.00	-	16.75	82,549.75	12,462.48	95,012.23
- Finance and Property	82,533.00	-	9.65	82,542.65	12,462.48	95,005.13

Note 1: The previous Corporate Director of Children's Services ceased employment with SCC on 16 May 2010 their annualised salary would have been £121,704. There was an interim Corporate Director hired from an agency for the period 25 May 2010 to 24 October 2010 at a cost of £79,304. Following that SCC appointed a permanent Corporate Director starting 27 September 2010 with an annualised salary of £135,000.

Note 2: The Corporate Director of Environment ceased employment with SCC on 31 December 2010. The annualised salary would have been £121,704. This post was vacant as at 31 March 2011.

Note 3: The Corporate Director of Resources ceased employment with SCC on 16 January 2011. The annualised salary would have been £121,704. This post was vacant as at 31 March 2011.

Note 4: An Interim Business Improvement Director has been employed by SCC via an agency and started in February 2011. The charge to the Authority for 2010/11 was £23,999.48. The annualised charge for this would be £176,000 based on £800 per day for 220 days, plus expenses.

Note 5: The Service Director for Transformation ceased employment with SCC on 18 March 2011. The annualised salary would have been £82,533.

Table 3 – 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 £	Total wages and benefits including pension contributions 2011/12 £
Chief Executive						
Sheila Wheeler	160,000.00	-	-	160,000.00	25,759.92	185,759.92
Corporate Director – Children's Services - note 1	135,000.00	12,255.00	-	147,255.00	21,735.00	168,990.00
Corporate Director – Community Services - note 2	121,704.00	22,241.46	-	143,945.46	19,594.32	163,539.78
Corporate Director – Environment - note 3	-	-	-	-	-	-
Corporate Director – Resources - note 4	-	-	-	-	-	-
Previous Business Improvement Director	-	-	-	-	-	-
New Business Improvement Director - note 5	-	-	-	-	-	-
Service Director for:						
- Children's Social Care - note 6	72,507.50	-	-	72,507.50	11,673.70	84,181.20
- Service Partnership	84,771.00	-	-	84,771.00	13,648.08	98,419.08
- Adult Social Care	82,295.04	-	-	82,295.04	13,249.44	95,544.48
- Community Regeneration	75,108.00	-	-	75,108.00	12,092.28	87,200.28
- Learning Disabilities	72,531.00	-	-	72,531.00	11,677.44	84,208.44
- Partnerships	72,531.00	-	-	72,531.00	11,677.44	84,208.44
- Highways and Passenger Transport - note 7	-	-	-	-	-	-
- Physical Regeneration	84,771.00	-	-	84,771.00	13,648.08	98,419.08
- Environmental Management and Regeneration	82,533.00	-	-	82,533.00	13,287.72	95,820.72
- Transformation - note 8	-	-	-	-	-	-
- HR and Organisational Development	84,771.00	-	-	84,771.00	13,648.08	98,419.08
- Client Services - note 9	70,642.51	22,760.00	-	93,402.51	11,373.40	104,775.91
- Deputy County Solicitor/ Monitoring Officer	55,734.88	-	235.88	55,970.76	8,935.24	64,906.00
- Finance and Property	84,771.00	-	-	84,771.00	13,648.08	98,419.08

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.

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

Exit package cost band (inc. special payments)	**Number of compulsory redundancies**		**Number of other departures agreed**		**Total number of exit packages by cost band**		**Total cost of exit packages in each cost band**	
	2010/11	**2011/12**	**2010/11**	**2011/12**	**2010/11**	**2011/12**	**2010/11 £millions**	**2011/12 £millions**
£0 - £20,000	5	12	188	20	193	32	1.666	0.115
£20,001 - £40,000	0	0	74	4	74	4	2.175	0.112
£40,001 - £60,000	0	0	37	0	37	0	1.689	-
£60,001 - £80,000	0	0	3	0	3	0	0.218	-
£80,001 - £100,000	0	0	0	0	0	0	-	-
£100,001 - £150,000	0	0	1	0	1	0	0.116	-
£150,001 - £200,000	0	0	0	0	0	0	-	-

Note 21: Termination Benefits

<u>Local Authority</u>
Somerset County Council terminated the contracts of 206 employees in 2011/12, incurring liabilities of £2.107 million. Of this total £1.518 million was payable to 163 staff from within the Education and Children's Service who were made redundant as part of the Authority's rationalisation of the service. The remaining amount was payable to a number of other employees across the Authority, with a total of £0.186 million payable to two departing Service Directors.

<u>Teachers</u>
Included in the above statement of £1.158 million, the Authority terminated the contracts of 78 teachers in 2011/12, incurring liabilities of £1.221million. This can be analysed across the following:

- Primary 21 teachers
- Middle School 1 teacher
- Secondary 47 teachers
- Virtual/ Non-school specific 9 teachers

Note 22: External Audit Costs

The Audit Commission's 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:

2010/11 £millions		2011/12 £millions
	Audit fees	
0.243	– Main audit (including the Somerset Waste Partnership)	0.204
0.012	– Grant claims	0.013
0.043	– Other audit costs	0.028
0.298		**0.245**

Note 23: Dedicated Schools Grant

Our spending on schools is primarily funded by the Dedicated Schools Grant (DSG), provided by the Department for Education. The DSG is ringfenced and can only be applied to meet expenditure included in the Schools Budget as defined by the School Finance (England) Regulations 2008. The Schools Budget included elements for a restricted range of services provided on an authority-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each school.

Details of how we spent the DSG for 2011/12 are as follows:

	Central spending £millions	Individual Schools Budget £millions	Total £millions
Final Dedicated Schools Grant for 2011/12	-31.549	-222.848	-254.397
Brought Forward from 2010/11	-1.206	-	-1.206
Agreed Budgeted Distribution in 2011/12	-32.755	-222.848	-255.603
Actual Central Expenditure	27.906	-	27.906
Actual ISB Deployed to schools	-	222.848	222.848
Carry Forward to 2012/13	**-4.849**	-	**-4.849**

Note 24: Grant Income

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2011/12:

2010/11 £millions		2011/12 £millions
	Credited to Taxation and Non Specific Grant Income	
-13.935	- Revenue Support Grant	-30.733
-36.269	- Area Based Grant	-
-	- Council Tax Freeze Grant	-5.035
-	- Early Intervention Grant	-17.874
-	- Lead Local Flood Authority Grant	-0.188
-	- LD & Health Reform Grant	-0.070
-	- Inshore Fisheries Grant	-0.134
-	- New Homes Bonus	-0.553
-	- Safer Communities Grant	-0.493
-	- Rights to Free Travel	-0.468
-	- Rural Bus Grant	-0.315
-12.181	- Standards Fund Capital Grant	-8.195
-5.755	- Surestart Capital Grant	-
-2.220	- National Heritage Lottery Fund	-0.883
-0.952	- Department of Health	-
-4.416	- Department for Transport Capital Grant	-26.639
-4.769	- Other capital grants	-2.266
-5.800	- Capital contribution re. donated asset (Somerset Bridge Primary School)	-
-4.670	- Other capital contributions	-4.000
-90.967	**Total**	**-97.846**
	Credited to Services	
-270.999	- Dedicated Schools Grant	-254.397
-33.518	- Standards Fund	-7.948
-15.848	- Standards Grant	-
-	- Sport England Grant	-1.058
-	- Pupil Premium Grant	-3.387
-	- Music Education Grant	-0.853
-	- Devolved Formula Capital Grant	-1.673
-	- Additional Grant: PE Release, Phonics and MAST	-0.194
-	- Intensive Evidence Based programme Grant	-0.051
-2.492	- Specific grants to schools	-
-6.647	- Skills Funding Agency (formerly Learning and Skills Council)	-6.698
-0.981	- Youth Justice	-0.759
-14.583	- Sure Start, Early Years and Childcare Grant	-
-0.969	- Local Area Agreement Grant	-
-0.972	- Family Intervention Projects	-
-1.033	- Diploma Formula Grant	-0.005
-3.518	- Children's services – other grants	-1.692
-10.154	- Young People's Learning Agency Post-16 Funding SCC Schools	-5.630
-19.297	- Young People's Learning Agency Post-16 Funding External Providers	-
-0.599	- Social Care Reform Grant	-0.526
-0.315	- Rural Bus Grant	-
-0.721	- Local Action for Rural Communities	-0.007
-	- COM Warm Homes Healthy People Fund	-0.185
-1.976	- Department for Transport Winter Funding 2011/12	-3.535
-2.427	- Environment - other grants	-1.810
-1.199	- Community services – other grants	-0.398
-	- Building Schools for the Future contributions	-2.574
-0.544	- Other services grants	-0.649
-388.792	**Total**	**-294.029**

Note 25: 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 effective control 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 24.

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 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 2011/12 is shown in Note 19. 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. Transactions took place between the Council and these organisations in 2011/12. Further details of these transactions are outlined below.

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 2011/12 the Council paid £0.579 million to PLUSS.

Southwest One provides a number of services to the Authority through a contract. These services include finance and corporate support, facilities management and technology services. In 2011/12 expenditure on services from Southwest One, including contract payments, was £35.596 million and income received from Southwest One, including payments for salaries of staff seconded from the Council to Southwest One, was £26.451 million. At 31/03/2012 we had a Southwest One debtor of £0.060 million and a Southwest One creditor of £0.149 million reported within our accounts.

Note 26: Property, Plant and Equipment

Movements in 2011/12	Other Land & Buildings £millions	Vehicles, Plant & Equipment £millions	Infrastructure Assets £millions	Community Assets (Restated) £millions	Surplus Assets (Restated) £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	8.053	4.298	26.244	0.119	-	6.231	44.945	-
Disposals	-222.996	-4.645	-	-0.361	-1.242	-	-229.244	-
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	631.036	63.108	450.333	1.033	4.368	7.107	1,156.985	-
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	-0.383	-	-	-	-	-	-0.383	-
- to Surplus/Deficit on the provision of service	-8.142	-0.030	-	-	-	-	-8.172	-
At 31 March 2012	-65.119	-29.403	-169.176	-0.731	-0.137	-0.035	-264.601	-
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**	**-**

Movements in 2010/11	Other Land & Buildings £millions	Vehicles, Plant & Equipment £millions	Infrastructure Assets £millions	Community Assets (Restated) £millions	Surplus Assets (Restated) £millions	Assets Under Construction £millions	Total £millions	PFI assets included in PPE £millions
Cost or valuation								
At 1 April 2010	861.892	61.577	397.141	3.142	6.059	18.509	1,348.320	-
Additions	17.648	8.015	26.814	0.552	-	9.826	62.855	-
Disposals	-55.279	-7.164	-0.016	-1.912	-	-	-64.371	-
Reclassifications	5.926	-0.068	0.150	-	0.334	-18.341	-11.999	-
Revaluation Increase/decrease (-):								
- to Revaluation Reserve	7.472	-	-	-	0.009	-	7.481	-
- to Surplus/Deficit on the provision of service	-1.157	-	-	-	-0.089	-	-1.246	-
At 31 March 2011	836.502	62.360	424.089	1.782	6.313	9.994	1,341.040	-
Depreciation and impairments								
At 1 April 2010	-21.923	-18.543	-135.182	-2.123	-	-	-177.771	-
Charge for 2010/11	-19.731	-10.212	-16.499	-0.176	-0.185	-	-46.803	-
Disposals	1.703	5.931	0.016	1.607	-	-	9.257	-
Reclassifications	-0.044	0.059	-	-	-0.005	-0.060	-0.050	-
Revaluations	0.347	-	-	-	0.013	-	0.360	-
Impairment Losses (-)/reversals:								
- to Revaluation Reserve	-5.513	-	-	-	-	-	-5.513	-
- to Surplus/Deficit on the provision of service	-13.055	-	-	0.029	-	-0.036	-13.062	-
At 31 March 2011	-58.216	-22.765	-151.665	-0.663	-0.177	-0.096	-233.582	-
Balance sheet amount at 1 April 2010	**839.969**	**43.034**	**261.959**	**1.019**	**6.059**	**18.509**	**1,170.549**	**-**
Balance sheet amount at 31 March 2011	**778.286**	**39.595**	**272.424**	**1.119**	**6.136**	**9.898**	**1,107.458**	**-**
Nature of asset holding at 31 March 2011								
Owned	713.202	39.595	272.424	1.119	6.136	9.898	1,042.374	-
Finance lease	65.084	-	-	-	-	-	65.084	-
	778.286	**39.595**	**272.424**	**1.119**	**6.136**	**9.898**	**1,107.458**	**-**

Depreciation

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

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

Capital Commitments

At 31 March 2012, the Authority anticipated investing £62.3m (£39.4m at 31 March 2010) in the construction or enhancement of Property, Plant, Equipment and Infrastructure during 2012/13 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:

- £0.430m for the expansion of the RFID programme in Libraries
- £0.891m for the major building projects at Frome College for post 16 students
- £2.682m for a contract to deliver a new school in Highbridge
- £1.303m for a contract to provide a classroom block at Yeovil Holy Trinity to meet increased pupil numbers
- £3.094m for a contract to remodel and extend Sky College in Taunton
- £0.415m for work to provide a new Autism Disorder Support Unit
- £3.090m for related contracts on the Bridgwater swimming pool partnership project
- £0.961m Contracts in relation to SMART Office

Similar commitments listed at 31 March 2011 were £3.679m.

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 2012/13 (£18-£20 million in 2011/12). These payments will relate to new projects in 2012/13 and are in addition to the specific project information shown above.

2. A framework contract to undertake capital works to maintain and extend the life of bridges with an estimated value of between £1.5 million and 2.0 million per annum.

3. A contract to update the social care IT system AIS, the value of the upgrade however will only become available later in 2012/13 once the project has been scoped and the price negotiated with the supplier.

Revaluations

The Authority carries out a rolling programme that ensures that 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	5.530	33.705	281.157	0.302	-	7.072	**327.766**
Valued at fair value as at:							
31 March 2012	18.304	-	-	-	0.314	-	**18.618**
31 March 2011	40.738	-	-	-	-	-	**40.738**
31 March 2010	74.591	-	-	-	0.952	-	**75.543**
31 March 2009	402.665	-	-	-	1.667	-	**404.332**
31 March 2008	24.089	-	-	-	1.298	-	**25.387**
Total cost or valuation	**565.917**	**33.705**	**281.157**	**0.302**	**4.231**	**7.072**	**892.384**

Note 27: Intangible Assets

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

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 £0.305 million for 2011/12 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 £0.234 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.

2009/10 £millions	2010/11 £millions		2011/12 £millions
		Balance at start of year:	
1.780	1.780	– Gross carrying amount	1.780
-0.071	-0.142	– Accumulated amortisation	-0.214
1.709	**1.638**	**Net carrying amount at start of year**	**1.566**
		Additions:	
-	-	– Purchases	0.122
-0.071	-0.072	Amortisation for the period	-0.305
		Other changes	
-	-	– Transferred from assets under construction	0.889
1.638	**1.566**	**Net carrying amount at end of year**	**2.272**

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

	at 31 March 2010 £millions	Carrying amount at 31 March 2011 £millions	at 31 March 2012 £millions	Remaining Amortisation Period at 31 March 2012
SAP system licences (Integrated finance and payroll system)	1.638	1.566	1.495	21 years
AIS System (replacement of SWIFT)	-	-	0.734	3 years

Note 28: Impairment Losses

During 2011/12, the Authority has recognised an impairment loss of £8.555 million to its property, plant and equipment non-current assets.

Within the impairment loss recognised during 2011/12, £7.385 million relates to Taunton Museum. This impairment reflects the onerous obligations within the lease arrangement between the Somerset Archaeological and Natural History Society (lessor) and SCC (lessee) in which SCC is required to bear the cost of maintenance and other property related costs. This loss is included within cultural and related services.

The remaining impairment loss can be allocated to the impairment of other assets becoming operational and the 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 26 that reconciles the movements over the year in the property, plant and equipment balances.

Note 29: Assets Held For Sale

During 2011/12 we declassified a number of our county farms that were previously held for sale as they no longer meet the IFRS 5 criteria of likely to be sold within one year. These are now shown within our land and buildings assets and an adjustment has been made for the missed depreciation.

Current 2009/10 £millions	Current 2010/11 £millions		Current 2011/12 £millions
-	**-**	**Balance outstanding at start of year**	**7.880**
		Assets newly classified as held for sale:	
-	12.049	Property, plant and equipment	1.821
-	-	Spend on assets held for sale	0.615
-	-	Revaluation losses	-
-	-2.936	Impairment losses	-0.036
		Assets declassified as held for sale:	
-	-	Property, plant and equipment	-2.728
-	-1.233	Assets sold	-3.855
-	**7.880**	**Balance outstanding at year end**	**3.697**

Note 30: 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 2010 £millions	31 March 2011 £millions	31 March 2012 £millions
Other Land and Buildings	64.320	65.084	60.790
Vehicles, Plant and Equipment	-	-	1.639
	64.320	**65.084**	**62.429**

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 2011/12 is the finance lease liability and finance costs for the new leisure centre at Chilton Trinity Foundation School. Although the leisure centre has been de-recognised from our accounts (due to control lying with the Foundation Trust) the lease rental payments are still payable and are therefore included within the total minimum lease payments. See note 31 for further details.

During 2011/12 the Authority also under went a sale and leaseback arrangement for a number of waste vehicles. In total 26 vehicles were sold that were held in the accounts at £1.686 m. These were then leased back for a minimum lease payment of £1.841m.

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

2010/11 £millions		2011/12 £millions
	Finance lease liabilities (net present value of minimum lease payments):	
0.004	- Current	0.268
0.421	- Non Current	5.429
0.490	Finance costs payable in future years	7.301
0.915	Minimum lease payments	**12.998**

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

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2011 £millions	31 March 2012 £millions	31 March 2011 £millions	31 March 2012 £millions
Not later than one year	0.022	0.696	0.004	0.268
Later than one year and not later than five years	0.087	2.784	0.015	1.184
Later than five years	0.806	9.518	0.406	4.245
	0.915	**12.998**	**0.425**	**5.697**

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 2011/12, no contingent rents were payable by the Authority (nil in 2010/11).

The Authority has sub-let part of Taunton library (held under a finance lease) as an operating lease. At 31 March 2012, the minimum lease payments expected to be received under non-cancellable sub-leases was £0.214m (£0.230m at 31 March 2011).

<u>Operating Leases</u>

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

Operating Leases	31 March 2011 Land & Buildings £millions	31 March 2011 Vehicles & Equipment £millions	31 March 2012 Land & Buildings £millions	31 March 2012 Vehicles & Equipment £millions
Not later than one year	1.110	0.052	0.880	0.034
Later than one year and not later than five years	2.572	0.069	2.580	0.021
Later than five years	3.051	-	2.568	-
	6.733	**0.121**	**6.028**	**0.055**

The Authority has sub-let some of the assets acquired under operating leases. At 31 March 2012, the minimum lease payments expected to be received under non-cancellable sub-leases were £0.285m (£0.337m at 31 March 2011).

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

	31 March 2011 £millions	31 March 2012 £millions
Minimum Lease Payments	0.100	0.173
Less - Sub-lease payments receivable	-0.048	-0.048
	0.052	**0.125**

Authority as Lessor

<u>Finance Leases</u>

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 88 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 104 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 2011 (Restated) £millions	31 March 2012 £millions
Finance lease debtor (net present value of minimum lease payments):		
- Current	0.026	0.027
- Non Current	22.130	22.077
Unearned Finance Income	72.033	70.986
Gross investment in the lease	**94.189**	**93.090**

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 2011 (Restated) £millions	31 March 2012 £millions	31 March 2011 (Restated) £millions	31 March 2012 £millions
Not later than one year	1.073	1.065	1.073	1.065
Later than one year and not later than five years	4.259	4.259	4.259	4.259
Later than five years	88.831	87.766	88.831	87.766
	94.163	**93.090**	**94.163**	**93.090**

During 2011/12, 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 2011/12. This will be reviewed again in 2012/13, 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 2011/12, no contingent rents were receivable by the Authority (£nil for 2010/11).

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 2011 £millions	31 March 2012 £millions
Not later than one year	0.229	0.317
Later than one year and not later than five years	0.575	0.619
Later than five years	1.093	0.609
	1.897	**1.545**

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 2011/12, no contingent rents were receivable by the Authority (nothing payable in 2010/11).

Note 31: 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. BAM started on site on 27 September 2010 with a view to completing in October 2012.

Payments for the scheme began in 2011/12 when the first of the assets, a leisure centre, was brought into use. 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 service element for the schools' premises costs and capital financing payments that relate to the reduction of the liability and an amount for interest. The figures shown in the table below do not include any adjustments for inflation.

	Repayments of Liability £	Interest Charges £	Service Charges £	Total Payments £
Within 1 year	2,084,657	136,858	2,026,950	**4,248,465**
Within 2 - 5 years	5,598,746	13,319,454	8,107,800	**27,026,000**
Within 6 - 10 years	6,083,496	17,564,255	10,134,750	**33,782,501**
Within 11 - 15 years	8,780,304	14,867,446	10,134,750	**33,782,500**
Within 16 - 20 years	12,672,608	10,975,143	10,134,750	**33,782,501**
Within 21 - 25 years	18,290,368	5,357,382	10,134,750	**33,782,500**
Within 26 - 30 years	2,561,449	195,043	2,026,950	**4,783,442**
	56,071,628	**62,415,581**	**52,700,700**	**171,187,909**

Although the Council is committed to making these payments the leisure centre and new schools (when they become operational in 2012/13) will be under the control of the Bridgwater Education Trust Ltd and therefore will not appear on our balance sheet. This is also referred to in note 30 (Leases) on page 82.

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:

	2010/11 £millions	2011/12 £millions
Balance outstanding at start of year	-	-
Payments made during the year	-	-0.014
Capital expenditure incurred in the year	-	3.823
Other movements	-	-
Balance outstanding at year-end	**-**	**3.809**

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 aforementioned availability and performance measures and penalties above, specifically in relation to the educational use.

The contractor has taken on the obligation to construct the schools and leisure centre and maintain them in 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 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.

Note 32: Heritage Assets - Five-Year Summary of Transactions

	2007/08 £millions	2008/09 £millions	2009/10 £millions	2010/11 £millions	2011/12 £millions
Carrying Value - as at 1 April					
Numismatic collections	0.306	0.306	0.306	0.306	0.664
Art Collections	-	-	-	-	-
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**	**0.816**	**1.174**
Cost of acquisitions of heritage assets					
Numismatic collections	-	-	-	0.358	0.117
Art Collections	-	-	-	-	0.004
Archives	-	-	-	-	-
Metalwork collections	-	-	-	-	-
Total cost of purchases	**-**	**-**	**-**	**0.358**	**0.121**
Carrying Value - as at 31 March					
Numismatic collections	0.306	0.306	0.306	0.664	0.781
Art Collections	-	-	-	-	0.004
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**	**0.816**	**1.174**	**1.295**

Since 1 April 2007, 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 33: Heritage Assets – Further information on our Museum 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 to 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.

We have not reported our archaeology collection 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.

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 34: 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 2012;
- 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 2011 Carrying amount £millions	31 March 2011 Fair Value £millions	31 March 2012 Carrying amount £millions	31 March 2012 Fair Value £millions
Financial liabilities at amortised cost	-541.461	-541.461	-701.948	-701.948
PWLB	-173.250	-186.772	-173.250	-217.350
Other Loans	-180.500	-205.147	-180.500	-238.981
	-895.211	**-933.380**	**-1055.698**	**-1158.279**

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 2012) arising from a commitment to pay interest to lenders above current market rates.

Financial Assets	31 March 2011 Carrying amount Restated £millions	31 March 2011 Fair Value Restated £millions	31 March 2012 Carrying amount £millions	31 March 2012 Fair Value £millions
Cash and liquid deposits	50.632	50.632	148.323	148.323
Loans and receivables	201.923	201.923	141.951	141.951
Long-term investments	8.190	8.190	5.594	5.594
	260.745	**260.745**	**295.868**	**295.868**

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 2012) 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.

2009/10 £millions	2010/11 £millions		2011/12 £millions
		Investments through the Comfund for:	
3.900	3.900	– South West Regional Assembly	4.350
2.250	3.200	– Exmoor National Park	3.500
0.365	0.365	– Police Community Trust	0.365
0.315	0.310	– Society of County Treasurers	0.290
0.025	0.175	– Falcon Housing Trust	0.175
0.050	0.250	– Richard Huish College	0.800
-	-	– Police Authority Treasurers' Society	0.005
0.250	0.250	– Learning South West	0.125
0.040	0.040	– Wyvern Club	0.040
0.490	0.295	– King Alfred School	0.100
7.685	8.785		9.750
92.315	101.215	Our own short-term investment in the Comfund	57.250
100.000	110.000	Total temporary Comfund investment	67.000
-	3.657	Other temporary investments	3.840
1.405	0.851	Interest due on temporary investments	0.672
101.405	**114.508**	**Total short-term investments**	**71.512**
11.967	8.189	Our own long-term investment in the Comfund	5.593
0.001	0.001	Investment in South West One	0.001
11.968	**8.190**	**Total long-term investments**	**5.594**

We have shares in our partner company Southwest One Ltd. We hold 1,175 shares at their nominal value of £1 per share. These are not marketable shares, so we record them at face value.

Long-term debtors

2009/10 (Restated) £millions	2010/11 (Restated) £millions		2011/12 £millions
		Loans to:	
0.587	0.556	Other authorities (mostly for housing)	0.523
0.110	0.098	Other organisations	0.090
0.175	0.141	Capital spending for probation to be funded in future years	0.111
2.830	1.830	Loan to ASPA	0.830
0.162	0.169	Officers' car loans and leases	0.142
23.211	23.184	Leasing arrangements with Somerset Care Ltd	22.076
27.075	**25.978**		**23.772**

Short-term borrowing

2009/10 £millions	2010/11 £millions		2011/12 £millions
-7.685	-8.785	Other organisations investing in the Comfund	-9.750
-0.403	-0.069	Interest payable on temporary borrowing	-0.064
-8.088	**-8.854**		**-9.814**

Long-term borrowing

2009/10 £millions	2010/11 £millions		2011/12 £millions
		Loans due to be repaid:	
-	-	within one year	-15.000
-	-15.000	between one and two years	-
-24.200	-9.200	between two and five years	-9.200
-	-	between five and 10 years	-
-329.550	-329.550	after more than 10 years	-329.550
-4.054	-4.136	Interest due on long-term borrowing	-4.259
-357.804	**-357.886**		**-358.009**

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

Note 35: 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 2010/11 can be found under the reports for the County Council meeting 15 February 2012, agenda item 7, Paper D Appendix D. This can be accessed via the hyperlink below.

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 will be:

- 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	15.000	-
	Local Authorities	32.000	-
	UK banks		
	AA	25.000	0.007
	A	114.045	0.103
	UK building societies		
	A	24.000	0.022
		210.045	**0.132**
S&P	**Money-market funds**		
	AAA	15.000	-
	Local Authorities	32.000	0.003
	UK banks		
	AA	25.000	0.005
	A	114.045	0.091
	UK building societies		
	A	24.000	0.019
		210.045	**0.118**
Moody's	**Money-market funds**		
	AAA	15.000	-
	Local Authorities	32.000	0.003
	UK banks		
	Aa2	25.000	-
	Aa3	24.000	0.012
	A1	55.630	0.082
	A2	34.415	0.038
	UK building societies		
	A2	24.000	0.027
		210.045	**0.162**
	Investment and highest risk	**210.045**	**0.162**

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 34.

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, or other tradable instruments whose value may be subject to fluctuations in market price.

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 2010/11, but after amendments to capital financing during the year, no new borrowing was necessary. All borrowing remains at fixed rates. During periods of falling or continued low interest rates, and where economic circumstances make it favourable, fixed rate loans can be repaid early to limit exposure to losses.

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

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

Legal and Regulatory Risk

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

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

Foreign Exchange Risk

The Authority has few financial assets and liabilities denominated in foreign currencies other than a few invoices in major currencies, namely Euros, US Dollars and Australian Dollars. Therefore there is little exposure to loss arising from exchange rates. The council holds £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 36: Inventories

	Consumable Stores		Work In Progress		Total	Total
	2010/11 £millions	2011/12 £millions	2010/11 £millions	2011/12 £millions	2010/11 £millions	2011/12 £millions
Balance outstanding at start of year	**0.455**	**0.391**	**0.062**	**0.068**	**0.517**	**0.459**
Purchases	1.740	0.985	0.068	0.075	**1.808**	**1.060**
Recognised as an expense in the year	-1.804	-0.850	-0.062	-0.067	**-1.866**	**-0.917**
Written off balances	-	-	-	-	**-**	**-**
Reversals of write-offs in previous years	-	-	-	-	**-**	**-**
Balance outstanding at year-end	**0.391**	**0.526**	**0.068**	**0.076**	**0.459**	**0.602**

Note 37: Short term debtors and payments in advance

2009/10 £millions	2010/11 £millions		2011/12 £millions
		Money owed to us by:	
		Government Departments:	
8.418	9.617	- Central Government	4.131
8.447	9.950	- Local Government	9.279
1.416	0.895	- NHS	3.261
0.122	0.114	Officers (for car loans and leasing arrangements)	0.092
28.802	20.025	Other organisations	14.785
12.815	12.226	Payments made in advance - Other organisations	12.444
-	0.222	Payments in Advance - Central Government	0.012
0.040	0.049	Payments in Advance - Local Government	0.040
1.011	-	Payments in Advance - NHS	-
61.071	**53.098**		**44.044**

Note 38: Short term creditors

2009/10 £millions	2010/11 £millions		2011/12 £millions
		Money we owe to:	
		Government Departments:	
-8.271	-7.325	- Central Government	-5.343
-7.148	-8.378	- Local Government	-5.317
-0.452	-0.362	- NHS	-0.345
-	-	- Public Corporations	-0.081
-43.044	-46.562	Other organisations	-39.375
-14.938	-10.559	Employees (under IAS19)	-11.136
-14.270	-6.709	Receipts in advance - Other organisations	-5.205
-5.327	-16.157	Receipts in advance - Central Government	-5.813
-0.358	-0.211	Receipts in advance - Local Government	-0.176
-0.397	-0.076	Receipts in advance - NHS	-0.042
-94.205	**-96.339**		**-72.833**

Note 39: Other long term liabilities

2009/10 £millions	2010/11 £millions		2011/12 £millions
-0.428	-0.421	Finance Lease Liability - due in more than 1 year	-5.429
-562.781	-394.074	Pensions liability	-564.657
-563.209	**-394.495**		**-570.086**

Note 40: Provisions

2009/10 £millions	2010/11 £millions		2011/12 £millions
-2.653	-3.114	Total insurance provision (excl. MMI) set aside on 1 April	-2.475
		Add:	
-2.630	-1.073	- premiums received from services	-1.629
-0.033	-0.035	- interest received	-0.037
		Less:	
0.561	0.666	- insurance premiums paid	0.875
1.057	0.599	- net claims paid	0.680
0.551	0.447	- professional and administrative costs	0.444
0.033	0.035	Transfer to reserves set aside for other purposes	0.037
-3.114	**-2.475**	**Total insurance provision set aside on 31 March**	**-2.105**
		Resources	
-0.316	-0.097	Repairs and maintenance contracts not yet complete	-0.048
-	-	Late payment on construction contract (re. Abacus)	-0.012
-	-0.306	Redundancies	-
-	-0.039	Human resources project	-
-	-0.026	Legal costs	-
-	-0.020	Southwest One work in progress	-
		Environment	
-	-	Highways and Traffic Management	-1.319
-	-0.053	Legal costs on appeal cases	-0.082
-	-	Carbon Emissions Charge 2011/12	-0.341
-	-	Transporting Somerset staffing costs	-0.012
-	-	Trading Standards costs relating to Tudor Chambers	-0.030
-	-0.250	Contractor claims under network management contract	-
-	-0.263	Closure costs for Safety Camera Partnership & Speed Choice	-
		Children's Services	
-	-	Playing for Success closure costs	-0.005
-	-	Care Leavers Grant	-0.204
-	-	Healthy Schools Plus Programme	-0.075
-	-0.029	ICT connections maintenance in Children's Centres	-
-	-0.070	Education Business Link activity in schools	-0.023
-	-0.024	Downs syndrome project	-
-	-0.535	Social worker training programme	-0.445
-	-0.090	Taunton Academy building surveys	-
		Coroners' Service	
-0.055	-	Charges relating to the Camelford inquest	-
-3.485	**-4.277**	**Total Provisions due in less than 1 year**	**-4.701**
-	-	Trading Standards costs relating to Tudor Chambers	-0.020
		Municipal Mutual Insurance (MMI) Provision	
-0.768	-0.768	Relating to asbestos claims paid by MMI	-0.778
-0.768	**-0.768**	**Total Provisions due in more than 1 year**	**-0.798**

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 £2.853 million of claims not yet finally agreed (£3.153 million in 2010/11) which we have not yet charged to the fund, but we have set aside £2.903 million as a provision. We also have an earmarked reserve for the Insurance Fund, which currently contains £5.352 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: Capital Grants/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:

2009/10 £millions	2010/11 £millions		2011/12 £millions
		Capital Grant Receipts in Advance	
		Where the conditions are likely to be met within 1 year:	
-10.955	-6.161	- Standards Fund (Schools Department for Education)	-15.373
-	-2.550	- Department for Transport	-4.529
-1.479	-0.280	- DEFRA	-0.072
-	-	- National Lottery Heritage Grant	-0.027
-	-	- Other	-0.176
-0.897	-0.853	- Department for Communities and Local Government	-1.862
-13.331	**-9.844**		**-22.039**
		Where the conditions are likely to be met in more than 1 year:	
-	-	- DEFRA	-
-5.690	-10.036	- Standards Fund (Schools Department for Education)	-7.944
-4.000	-1.450	- Department for Transport	-
-9.690	**-11.486**		**-7.944**
		Capital Contribution Receipts in Advance (RIA)	
		Where the conditions are likely to be met within 1 year:	
-0.786	-2.500	- Section 106 Contributions	-0.695
-	-	- Other Contributions to our Capital Schemes	-0.725
-0.786	**-2.500**		**-1.420**
		Where the conditions are likely to be met in more than 1 year:	
-2.728	-3.373	- Section 106 Contributions	-2.626
-0.055	-0.055	- Section 52 Contributions	-0.025
-0.379	-0.345	- Other Contributions to our Capital Schemes	-2.603
-3.162	**-3.773**		**-5.254**
-14.117	-12.344	Total Capital Grant/Contributions RIA's, where conditions are likely to be met within 1 year	-23.459
-12.852	-15.259	Total Capital Grant/Contributions RIA's, where conditions are likely to be met in more than 1 year	-13.198
-26.969	**-27.603**	**Total**	**-36.657**

Note 42: Usable Reserves

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

2009/10 (Restated) £millions	2010/11 (Restated) £millions		2011/12 £millions
30.608	29.457	General Fund - Schools	25.653
14.146	15.067	General Fund - Other	24.203
19.008	23.809	Earmarked Reserves - set aside for revenue purposes	38.159
9.352	7.708	Capital Receipts Reserve	14.610
-1.227	1.178	Capital Grants Unapplied Reserve	6.099
5.062	7.382	Capital Contributions Unapplied Reserve	6.876
76.949	**84.601**	**Total Usable Reserves**	**115.600**

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.

Note 43: Unusable Reserves

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

2009/10 (Restated) £millions	2010/11 (Restated) £millions		2011/12 £millions
278.160	257.340	Revaluation Reserve	191.338
571.680	536.668	Capital Adjustment Account	405.714
-562.781	-394.074	Pensions Reserve	-564.657
0.431	1.756	Collection Fund Adjustment Account	2.829
-14.938	-10.559	Accumulated Compensated Absences Adjustment Account	-11.135
272.552	**391.131**	**Total Unusable Reserves**	**24.089**

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.

2010/11 (Restated) £millions		2011/12 £millions	2011/12 £millions
278.160	**Balance at 1 April**		**257.340**
7.840	Upward revaluation of assets	7.134	
-5.513	Revaluation/Impairment (losses) not charged to the Surplus/Deficit on the Provision of Services	-0.383	
2.327	Surplus/Deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services		**6.751**
-8.524	Difference between fair value depreciation and historical cost dep'n	-6.824	
-14.623	Accumulated gains on asset disposals	-65.929	
-23.147	Amount written off to the Capital Adjustment Account		**-72.753**
257.340	**Balance at 31 March**		**191.338**

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

2010/11 (Restated) £millions			2011/12 £millions
571.680	**Balance at 1 April**		**536.668**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
-62.799	- Charges for depreciation and impairment of non current assets/assets held for sale	-51.949	
-1.246	- Revaluation losses on Property, Plant and Equipment	-1.102	
-0.072	- Amortisation of intangible assets	-0.305	
2.253	- Reversal of Icelandic impairment	5.810	
-5.403	- Revenue expenditure funded from capital under statute	-6.326	
-56.347	- 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	-219.560	
-123.614			-273.432
23.147	Adjusting amounts written out of the Revaluation Reserve		72.753
-100.467	Net written out amount of the cost of non current assets consumed in the year		-200.679
	Capital Financing applied in the year:		
6.802	- use of the Capital Receipts Reserve to finance new capital expenditure	7.121	
37.412	- Capital grants and contributions that have been applied to capital financing	40.613	
19.506	- Statutory provision for the financing of capital investment charged against the General Fund balance	20.059	
1.826	- Capital expenditure charged against the General Fund balance	1.602	
65.546			69.395
1.000	Repayment made in year to reduce the capitalised Icelandic investment impairment		1.000
-1.064	Repayment made in year to reduce the capitalised redundancy costs		0.355
-0.027	Principal repayments recognised as Useable Capital Receipts during 2011/12		-1.025
536.668	**Balance at 31 March**		**405.714**

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.

2010/11 £millions		2011/12 £millions
-562.781	**Balance at 1 April**	**-394.074**
104.934	Actuarial gains or losses on pensions assets and liabilities	-173.334
35.441	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	-23.835
28.332	Employer's pensions contributions and direct payments to pensioners payable in the year	26.586
-394.074	**Balance at 31 March**	**-564.657**

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.

2010/11 £millions		2011/12 £millions
0.431	**Balance at 1 April**	**1.756**
1.325	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
1.756	**Balance at 31 March**	**2.829**

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.

2010/11 £millions		2011/12 £millions
-14.938	**Balance at 1 April**	**-10.559**
14.938	Settlement or cancellation of accrual made at the end of the preceding year	10.559
-10.559	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	-11.135
-10.559	**Balance at 31 March**	**-11.135**

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.

2009/10 £millions	2010/11 £millions		2011/12 £millions
18.350	15.462	Net Cash in hand	5.278
18.490	35.170	Short term Investment (initial maturity term less than 3 months)	143.045
36.840	**50.632**	**Cash and cash equivalents sub total**	**148.323**
-7.850	-4.989	Bank overdraft	-0.908
28.990	**45.643**	**Cash and cash equivalents at the end of the reporting period**	**147.415**

Note 45: Cash Flow Statement – Operating Activities

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

2010/11 (Restated) £millions		2011/12 £millions
-18.969	Net surplus(-)/deficit on the provision of services	**169.460**
-46.875	Depreciation and amortisation	-43.187
-11.746	Impairment and downward valuations	-9.309
63.773	IAS 19 - Pension Liability	2.751
2.253	Iceland impairment	5.796
-56.347	Carrying amount of non-current assets sold	-219.560
-2.373	Carrying amount of short and long term investments sold	-
-0.077	Other non-cash movements	-
-18.195	Movement in working capital	14.356
-69.587		**-249.153**
43.828	Adjustment for items that are investing or financing activities	54.968
-44.728		**-24.725**

The cash flows for operating activities include the following items:

2010/11 £millions		2011/12 £millions
-4.201	Interest received	-3.908
38.157	Interest paid	28.562

Note 46: Cash Flow Statement – Investing Activities

2010/11 £millions		2011/12 £millions
57.413	Purchase of property, plant and equipment, investment property and intangible assets	43.024
10.000	Purchase of short term and long term investments	-
4.342	Other payments for investing activities	0.074
-5.121	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	-12.985
-2.373	Proceeds from short term and long term investments	-51.209
-33.761	Other receipts from investing activities	-54.151
30.500	**Net cash flows from investing activities**	**-75.247**

Note 47: Cash Flow Statement – Financing Activities

2010/11 £millions		2011/12 £millions
-7.375	Cash receipts of short and long term borrowing	-7.020
-1.325	Appropriation to Collection Fund Adjustment Account	-1.073
6.275	Repayments of short term and long term borrowing	6.055
-	Other payments for financing activities	0.238
-2.425	**Net cash flows from financing activities**	**-1.800**

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.

2010/11 £millions		2011/12 £millions
349.220	Opening Capital Financing Requirement	350.101
	Capital Investment:	
63.213	- Property, Plant and Equipment (including non-enhancing writedown)	45.805
-	- Intangible Assets	0.122
-	- Heritage Asset	0.121
-	- Current Assets Held for Sale	0.615
5.403	- Revenue Expenditure Funded from Capital Under Statute	6.326
-2.253	Capitalised Icelandic Investment Impairment/(Reversal)	-5.810
1.064	Capitalised Redundancy Costs	-0.355
	Sources of Finance	
-6.802	- Capital receipts	-7.121
-37.412	- Government grants and contributions	-40.613
	- Sums set aside from revenue:	
-1.826	- Direct revenue contributions	-1.602
-19.506	- MRP/loans fund principal	-20.059
-1.000	- Capitalised Icelandic Impairment Repayment	-1.000
350.101	**Closing Capital Financing Requirement**	**326.530**

2010/11 £millions		2011/12 £millions
	Explanation of movements in year	
12.030	Increase/Decrease (-) in underlying need to borrow (supported by government financial assistance)	-11.870
-11.149	Increase/Decrease (-) in underlying need to borrow (unsupported by government financial assistance)	-17.210
-	Assets acquired under finance leases	5.509
-	Assets acquired under PFI/PPP contracts	-
0.881	**Increase/Decrease (-) in Capital Financing Requirement**	**-23.571**

Note 49: Contingent Liabilities

In future, we may have to refund charges we have made to people in previous years under section 117 of the Mental Health Act 1983. We have set aside £200,000 within the 2012/13 budget to meet possible claims. We are also contesting five employment tribunals by former Council employees, a court appeal and three construction cost/damage claims.

SCC has a contract with Southwest One for support services including the provision of a procurement service. There is a dispute between SCC and Southwest One relating to the procurement service and the level of savings generated and Southwest One has stated they will take SCC to court to pursue their claim. SCC is defending the claim and negotiations continue to assess the level of claim and any potential liability.

Note 50: Contingent Assets

We currently have no contingent assets.

Note 51: 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 2011/12 the Council was given allowances by DEFRA to dispose of 91,676 tonnes of biodegradable municipal waste in landfill sites. The Council disposed of 75,818 tonnes of such waste in landfill sites, resulting in an unused balance of 15,858 tonnes of allowances for the year. There is currently no active market for landfill allowances and therefore these unused allowances are not recorded in the balance sheet.

Note 52: 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 2012 these stood at the levels shown below.

2010/11 £millions		2011/12 £millions
0.999	Field House	0.924
2.951	Bishop Fox's Foundation	-
0.039	Other trusts	0.039
3.989		**0.963**

Bishop Fox’s Foundation and Eagle House are now managed by Somerset Community Council. Following the 2011/12 accounts they will no longer be applicable as part of the above Trust Fund note.

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.

2010/11 £millions		2011/12 £millions
-0.050	Total income	-0.050
0.002	Total spending	-0.077
-0.048	**Surplus**	**-0.127**
0.999	Value of assets	0.924
-	Less: long-term liabilities	-
0.999	**Total value of the fund**	**0.924**

Note 53: Defined Benefit Pension Schemes

Our staff can contribute to one of two statutory pension schemes depending on their job. We, as their employer, have to make contributions towards these pensions in line with the rules governing each scheme. This note explains the contributions we make to these schemes.

We apply the 'projected unit method' for valuing the costs to the fund of the benefits to members. With this method, the current service cost of the Local Government Scheme will increase as members of the scheme approach retirement.

We also have to show specific information about assets, liabilities, income and spending relating to the pension schemes we run. These requirements are set out in International Accounting Standard 19 (IAS 19).

Table 1: Total pension deficit

2010/11 £millions		2011/12 £millions
-394.074	Local Government Pension Scheme	-564.657
-394.074	**Net deficit on 31 March**	**-564.657**

Local Government Pension Scheme

This is the scheme for most local government employees. However, there is a separate scheme for teachers. This is a funded, defined-benefit pension scheme that we manage. The most recent full actuarial valuation of this scheme was undertaken on 31 March 2010.

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

Table 2

2010/11 £millions	2010/11 %		2011/12 £millions	2011/12 %
25.254	15.1	Contributions we have paid to the Pension Fund towards our employees' pensions	23.290	16.1
123.601	74.1	Pension costs that we should charge to the accounts in line with proper accounting rules	43.193	29.9
1.391	0.8	Discretionary pension payments made in the year	0.921	0.6
-	-	Capital costs of discretionary pensions that we agreed during the year	-	-
49.380	-	Capital costs of discretionary pensions that we agreed in previous years	50.036	-

Table 3: In applying IAS 19, we have made the following assumptions:

2010/11 %		2011/12 %
	Assumptions used for:	
3.5	- inflation	3.3
5.0	- rate of increase in salaries	4.7
2.7	- rate of increase for pension payments	2.5
2.7	- rate of increase in deferred pensions	2.5
5.5	- rate used to discount liabilities	4.6
2.7	- rate of CPI increases	2.5

Table 4: The fair market value of the assets we hold and the percentage rate of return that we have earned on these assets are as follows:

2010/11 £millions	2010/11 %		2011/12 £millions	2011/12 %
414.920	7.7	Equities	399.867	6.6
33.642	4.4	Gilts	33.792	3.3
67.284	5.5	Bonds	73.215	4.6
39.249	6.8	Property	50.687	5.7
5.607	3.0	Cash	5.632	3.0
560.702			**563.193**	

The expected return on assets is based on the long-term expected investment return for each asset class as at 1 April 2011 for the year to 31 March 2012. We assume the return on gilts and other bonds 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.

Table 5: The estimated deficit on the scheme is as follows:

2010/11 £millions		2011/12 £millions
560.702	Our share of the assets in the scheme	563.193
-954.776	Less estimated liabilities	-1,127.850
-394.074	**Deficit on the scheme**	**-564.657**

Table 6: Changes in the deficit during the year is as follows:

2010/11 £millions		2011/12 £millions
-562.781	Net deficit on 1 April	-394.074
-40.012	Current service cost	-29.900
26.890	Contributions received	25.108
1.442	Unfunded pension payments	1.478
94.967	Past service cost	-
-21.258	Other finance income	-12.020
1.744	Settlements	18.085
104.934	Actuarial gain or loss (-)	-173.334
-394.074	**Net deficit on 31 March**	**-564.657**

Table 7: The actuarial gain or loss (-) can be broken down as follows:

2010/11 £millions	%		2011/12 £millions	%
-7.068	-1.3	Actual return less expected return on assets	-28.266	-5.0
22.551	2.4	Experience gains arising on the scheme liabilities	-	-
89.451	11.0	Effects of changes in assumptions relating to the current value of the scheme liabilities	-145.068	-15.4
104.934			**-173.334**	

Table 8: Life expectancy assumptions

Life Expectancy in years from age 65		
Retiring today		
	Males	20.0
	Females	24.0
Retiring in 20 years		
	Males	22.0
	Females	25.9

Table 9: Changes in the opening and closing balances of present value of the defined benefit obligation

2010/11 £millions		2011/12 £millions
-1,093.143	Defined benefit obligation at the start of the period	-954.776
-40.012	Service cost	-29.900
-59.113	Interest costs	-51.521
114.612	Actuarial losses/gains (-)	-145.068
-3.320	Losses/gains (-) on curtailments	-0.779
34.011	Estimated benefits paid (not including transfers in)	31.433
94.967	Past service cost	-
-10.852	Contributions by scheme members	-9.329
6.632	Liabilities which are paid off with settlements	30.612
1.442	Unfunded pension payments	1.478
-954.776	**Defined benefit obligation at the end of the period**	**-1,127.850**

Table 10: Changes in the opening and closing balances of the fair value of scheme assets

2010/11 £millions		2011/12 £millions
530.362	Fair value of the scheme's assets at the start of the period	560.702
37.855	Expected return on the scheme's assets	39.501
-9.678	Actuarial gains/losses (-)	-28.266
28.332	Contributions by employer (including unfunded benefits)	26.586
10.852	Contributions by scheme members	9.329
-1.568	Bulk transfer value received	-11.748
-35.453	Estimated benefits paid (including unfunded benefits)	-32.911
560.702	**Fair value of the scheme's assets at the end of the period**	**563.193**

Table 11: Changes in the present value of the scheme liabilities and the fair value of the scheme assets matched to the liabilities and assets on the balance sheet

2010/11 £millions		2011/12 £millions
-934.957	Current value of funded obligation	-1,107.381
560.702	Fair value of the scheme's assets (bid value)	563.193
-374.255	Net liability	-544.188
-19.819	Present value of unfunded obligation	-20.469
-394.074	**Net liability in the balance sheet**	**-564.657**

Table 12: Total expense recognised in the income and expenditure account

2010/11 £millions		2011/12 £millions
40.012	Current service cost	29.900
59.113	Interest cost	51.521
-37.855	Expected return on the scheme's assets	-39.501
-94.967	Past service costs	-
-1.744	Losses on curtailments	-18.085
-35.441	**Total pensions cost shown in income and expenditure account**	**23.835**

Table 13: Amounts for the current and previous periods

	2011/12 £ millions	2010/11 £ millions	2009/10 £ millions	2008/09 £ millions	2007/08 £ millions
Defined benefit obligation	-1,127.850	-954.776	-1,093.143	-672.937	-708.652
Scheme's assets	563.193	560.702	530.362	382.774	506.444
Surplus or deficit	-564.657	-394.074	-562.781	-290.163	-202.208
Experience adjustments on scheme's assets	-28.266	-9.678	109.565	-169.064	-92.425
Experience adjustments on scheme's liabilities	-	25.161	-	-	-40.059
Cumulative Actuarial Gains and Losses	-330.540	-157.206	-262.140	-11.338	50.644

Table 14: Estimated pension expenses for the year to 31 March 2013

	2012/13 £millions
Service cost	37.545
Interest cost	52.232
Return on assets	-34.022
Total	55.755
Employer's contributions	24.441

Teachers' Pension Scheme

This is a notionally-funded, defined-contribution scheme that is managed by the Teachers Pension Agency. This means we pay contributions as if it was a funded scheme, when, in fact, it is not. Because this scheme is not funded, there is no need for a full actuarial valuation. The table below shows the costs in millions, and as a percentage of total pensionable pay.

Table 15

2010/11 £millions	%		2011/12 £millions	%
19.980	14.10	Pension costs charged to the accounts	14.741	14.10
0.096	0.07	Discretionary payments made	0.057	0.05

Group accounts

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

In previous years we have consolidated the accounts of PLUSS Ltd into our Group Accounts. This year we have remained consistent with the other partners of PLUSS Ltd: Torbay Council; Devon County Council and Plymouth City Council and not produced group accounts. We only have 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

The Pension Fund

This section summarises the accounts of our Local Government Pension Fund. We use the local Government Pension fund to pay former employees their pensions and other benefits when they retire.

Local Government Pension Fund (LGP Fund)

By law, we 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 Avon and Somerset Police Authority (police officers have a separate scheme) and employees of other member bodies. A full list of employers who participate in the fund is provided on the next page.

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 £3.77 million for 2011/2012, £4.88 million for 2012/2013 and £5.83 million 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 pension and lump-sum payments that employees receive when they retire are 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.

Summary of the scheme member bodies

<u>Administering authority</u>
Somerset County Council

<u>Member bodies</u>

Major scheduled bodies
County council -
Somerset

Police authority -
Avon and Somerset (civilian staff)

District councils -
Mendip
Sedgemoor
South Somerset
Taunton Deane
West Somerset

Other scheduled bodies with contributors
Parish and town councils, and so on -
Axbridge Town Council
Berrow Parish Council
Burnham and Highbridge Town Council and Burial Board
Chard Town Council
Crewkerne Town Council and Burial Board
Frome Town Council
Glastonbury Town Council
Ilminster Town Council
Langport Town Council
Lower Brue Drainage Board
Minehead Town Council
Shepton Mallet Town Council
Somerton Town Council
Street Parish Council
Wellington Town Council
Wells Burial Board and Parish Council
Williton Parish Council
Wincanton Town Council
Yeovil Town Council

Further-education colleges
Bridgwater College
Richard Huish Sixth Form College
Somerset College of Art and Technology
Strode College
Yeovil College

Other bodies
Avon and Somerset Local Probation Board
Exmoor National Park

Admitted bodies with contributors
Aster Communities Ltd
Care Focus Somerset Ltd
Connect South West
DHI Ltd
Edward and Ward Ltd
Homes in Sedgemoor
ICM
Learning South West
Leisure East Devon
Lovell Partnership
Magna West Somerset Housing Association
May Gurney Ltd
National Autistic Society
SHAL Housing Ltd
Society of Local Council Clerks
Somerset Care Ltd
Somerset Rural Youth Project
South West Regional Assembly Board
Tone Leisure Ltd
Yarlington Housing Group
1610 Ltd

Academies
Ansford Academy
Avishayes Academy
Bishop Fox's Academy
Brookside Academy
Bruton Sexey's School
Buckler's Mead Academy
Castle Academy
Crispin Academy
Enmore Academy
Haygrove Academy
Holyrood Academy
Huish Episcopi Academy
Kings of Wessex Academy
Kingsmead Academy
Maiden Beech Academy
Minehead Middle School
North Town Academy
Oakfield Academy
Preston Academy
Redstart Academy
Selwood Academy
St. Dunstan's Academy

Academies - continued Stanchester Academy Tatworth Academy Taunton Academy The Blue School, Wells Weare Academy Wedmore Academy West Somerset Community College Westfield Academy Whitstone Academy	

LGPS Fund account

2010/11 Restated £millions		2011/12 £millions	Notes
	Contributions and other income		
-21.633	From employees: basic	-19.979	1
-0.577	From employees: additional	-0.496	1
-54.341	From employers	-55.389	1
-1.535	Recoveries from member organisations	-1.825	1
-12.715	Transfer values received	-4.681	2
-90.801		**-82.370**	
	Less benefits and other payments		
46.672	Recurring pensions	52.217	1
20.296	Lump sum on retirement	17.528	1
1.250	Lump sum on death	1.126	1
8.874	Transfer values paid	2.951	2
0.016	Refund of contributions	0.009	3
0.994	Administration expenses	1.005	4
-12.699	**Contributions after payments**	**-7.534**	
	Investment income		
-28.524	Income earned on investments – received	-34.184	5
-5.629	Income earned on investments – accrued	-4.545	5
4.032	Less investment expenses	3.354	6
1.441	Less irrecoverable tax	0.573	
-0.006	Other income	-0.010	
-28.686		**-34.812**	
	Change in market value of investments		
-18.006	Realised profit	-9.791	
-34.562	Unrealised profit	22.565	
-52.568		**12.774**	
-81.254	**Net return on investments**	**-22.038**	
-93.953	**Net increase in the net assets available for benefits during the year**	**-29.572**	
	Change in actuarial present value of promised retirement benefits		
-329.429	Vested benefits	320.544	
84.186	Non-vested benefits	109.767	
-245.243	**Net change in present value of promised benefits**	**430.311**	
-339.196	**Net increase (–) or decrease in the fund during the year**	**400.739**	
1,033.661	**Add net liabilities at beginning of year**	**694.465**	
694.465	**Net liabilities at end of year**	**1,095.204**	

Net Assets Statement

On 31 March 2011 Restated £millions		On 31 March 2012 £millions	Notes
	Investment assets and liabilities		
1,165.113	Investment assets	1,191.087	7
-6.138	Investment liabilities	-2.350	7
6.287	Other investment balances	4.897	10
	Current assets		
5.542	Contributions due from employers	4.936	
-	Cash at bank	0.021	
2.375	Other debtors	3.502	
	Current liabilities		
-	Unpaid benefits	-	
-0.173	Bank overdraft	-	
-3.529	Other creditors	-3.044	
1,169.477	**Net assets of the scheme available to fund benefits at end of year**	**1,199.049**	
	Actuarial present value of promised retirement benefits		
-1,518.541	Vested benefits	-1,839.085	
-345.401	Non-vested benefits	-455.168	
-694.465	**Net liabilities at end of year**	**-1,095.204**	

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 Accounting in the UK 2011/12, 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 £6,000 was agreed but not settled on 31 March 2012. There was 1 transfer out for £342,000 which was 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 accounts

Note 1: Contributions and benefits

	Somerset County Council £millions	Scheduled organisations £millions	Admitted organisations £millions	Total £millions
Employees' contributions				
– Normal	-9.024	-9.429	-1.526	-19.979
– Additional	-0.253	-0.240	-0.003	-0.496
Total	-9.277	-9.669	-1.529	-20.475
Employers' contributions				
– Normal	-19.520	-19.602	-2.843	-41.965
– Augmentation	-2.973	-2.072	-0.277	-5.322
– Deficit funding	-3.770	-2.203	-2.129	-8.102
Total	-26.263	-23.877	-5.249	-55.389
Recurring pension and lump-sum payments	32.176	32.424	6.271	70.871
Recoveries (money received) from member organisations	-0.111	-1.383	-0.331	-1.825
Total	**-3.475**	**-2.505**	**-0.838**	**-6.818**

Note 2: Transfer values

2010/11 £millions		2011/12 £millions
-12.715	Individual transfer values received	-4.681
8.874	Individual transfer values paid	2.951

Note 3: Refunds

2010/11 £millions		2011/12 £millions
0.017	Contributions refunded to people who leave the scheme with less than three months' service	0.008
0.002	Interest built up in past cases	0.001
0.019		0.009
-0.002	Less deductions from contributions equivalent premium	0.001
-0.001	Add/less (-) payments to Department for Work and Pensions contributions equivalent premium	-0.001
0.016		**0.009**

Note 4: Administration expenses

2010/11 Restated £millions		2011/12 £millions
0.844	Administration costs charged by Somerset County Council	0.844
0.045	Audit fees	0.022
0.055	Actuary's fees	0.120
0.016	Legal expenses	-
0.034	Other expenses	0.019
0.994		**1.005**

Note 5: Investment income

2010/11 £millions		2011/12 £millions
-9.159	Fixed interest	-10.274
-0.751	Index linked	-0.693
-9.274	UK equities	-10.029
-10.700	Foreign equities	-11.711
-3.924	Property unit trusts	-5.611
-0.120	Cash invested internally	-0.248
-0.001	Commission recapture	-0.003
-0.224	Stock lending	-0.160
-34.153		**-38.729**

Note 6: Investment expenses

2010/11 £millions		2011/12 £millions
	Fund manager fees	
0.152	Aviva Investors	0.177
0.452	JP Morgan Asset Management	0.135
0.470	Jupiter Asset Management	0.424
0.191	Pioneer	0.162
0.280	Record Currency Management	0.054
1.002	Standard Life Investments	0.906
0.232	UBS Global Asset Management	0.126
2.779		1.984
	Other expenses	
0.094	Professional services and subscriptions	0.146
0.137	Specialist IT systems	0.160
0.173	Custody fees	0.155
0.018	Fees for measuring performance	0.020
0.831	Property unit trust managers' fees	0.889
4.032	**Total investment expenses**	**3.354**

Note 7: Investment assets and liabilities

31 March 2011 £millions	%	%		31 March 2012 £millions	£millions	%	%
			UK equities				
303.421	26.2		Quoted	306.718		25.8	
5.780	0.5		Standard Life smaller companies fund	5.869		0.5	
309.201		**26.7**			**312.587**		**26.3**
			Foreign equities				
229.867	19.8		North America	232.162		19.5	
136.831	11.8		Europe	121.460		10.2	
27.348	2.4		Japan	25.105		2.1	
73.211	6.3		Pacific (not including Japan)	67.851		5.7	
1.142	0.1		Middle East	0.642		0.1	
33.134	2.9		Nomura Japan fund	34.507		2.9	
36.816	3.2		Pioneer emerging markets fund	51.429		4.3	
538.349		**46.5**			**533.156**		**44.8**
			Bonds				
17.090	1.5		UK fixed-interest – public sector	19.140		1.6	
106.093	9.1		– corporate sector	112.793		9.5	
43.591	3.8		UK index linked – public sector	52.037		4.4	
1.109	0.1		– corporate sector	-		-	
0.538	-		Overseas index linked – public sector	0.685		0.1	
-	-		Foreign – public sector	-		-	
35.797	3.1		Foreign – corporate sector	39.483		3.3	
204.218		**17.6**			**224.138**		**18.9**
			Property				
83.957	7.2		UK property funds	93.436		7.9	
8.430	0.7		Overseas property funds	8.520		0.7	
92.387		**7.9**			**101.956**		**8.6**
			Private equity				
2.320	0.2		Neuberger Berman Crossroads 2010 fund	3.295		0.3	
2.000	0.2		South West regional venture fund	2.000		0.2	
4.320		**0.4**			**5.295**		**0.5**
			Derivatives				
1.758	0.1		Forward foreign exchange contracts	1.526		0.1	
-	-		Government bond futures	-		-	
1.758		**0.1**			**1.526**		**0.1**
			Cash and others				
14.880	1.3		Cash invested internally	12.429		1.0	
14.880		**1.3**			**12.429**		**1.0**
1,165.113		**100.5**	**Investment assets**		**1,191.087**		**100.2**
			Derivatives				
-6.138	-0.5		Forward foreign-exchange contracts	-2.350		-0.2	
-	-		Government bond futures	-		-	
		-0.5			-2.350		**-0.2**
-6.138		**-0.5**	**Investment liabilities**		**-2.350**		**-0.2**
1,158.975		**100.0**	**Net investment assets**		**1,188.737**		**100.0**
			Made up of				
958.126			Costs from previous years		1,010.453		
200.849			Profits or losses we have not yet achieved		178.284		
1,158.975					**1,188.737**		

Note 8: Movement in investment assets

Manager	Asset class	Investment assets as at 1 April £millions	Change in cash invested £millions	Purchases £millions	Sales £millions	Realised profit or loss £millions	Unrealised profit or loss £millions	Investment assets as at 31 March £millions
2010/11	**Total**	1,063.739	-22.873	3,989.576	-3,924.035	18.006	34.562	1,158.975
Somerset County Council	Global equity	319.360	-	41.717	-54.331	2.315	-11.196	297.865
Standard Life	UK equity	279.733	-	95.920	-80.024	-4.756	-5.419	285.454
JP Morgan	US equity	61.979	-	80.379	-78.627	4.583	-1.464	66.850
Jupiter	European equity	72.678	-	22.689	-18.030	-3.440	-5.823	68.074
Nomura	Japanese equity	33.134	-	0.050	-	-0.050	1.373	34.507
UBS	Far East equity	43.850	-	14.670	-14.245	1.644	-4.355	41.564
Pioneer	Emerging market equity	36.816	-	20.000	-	-	-5.387	51.429
Standard Life	Bonds	204.218	-	72.559	-62.769	1.807	8.323	224.138
Standard Life	Derivatives	-1.644	-	442.516	-442.428	-0.095	2.018	0.367
Aviva	Property	92.387	-	17.909	-3.962	-2.319	-2.059	101.956
Aviva	Currency	-0.261	-	69.480	-69.480	-	0.424	0.163
Record	Currency	-2.475	-	2,249.115	-2,244.175	-4.941	1.122	-1.354
Neuberger Berman	Global private equity	2.320	-	1.594	-0.612	-0.032	0.025	3.295
Yorkshire	UK venture capital	2.000	-	-	-	-	-	2.000
Somerset County Council	Cash	14.880	-17.379	-	-	15.075	-0.147	12.429
2011/12	**Total**	**1,158.975**	**-17.379**	**3,128.598**	**-3,068.683**	**9.791**	**-22.565**	**1,188.737**

Note 9: Management structure

As at 31 March 2011				As at 31 March 2012	
%	**£millions**	**Manager**	**Asset class**	**£millions**	**%**
28	319.360	Somerset County Council	Passive global equity	297.865	25
24	279.733	Standard Life	UK equity	285.454	24
5	61.979	JP Morgan	US equity	-	0
0	-	Somerset County Council	Passive US equity	66.850	6
6	72.678	Jupiter	European equity	68.074	6
3	33.134	Nomura	Japanese equity	34.507	3
4	43.850	UBS	Far East equity	41.564	3
3	36.816	Pioneer	Emerging market equity	51.429	4
18	202.574	Standard Life	Bonds	224.505	19
8	92.126	Aviva	Property	102.119	9
0	-2.475	Record Currency Management	Currency	-1.354	0
0	2.320	Neuberger Berman	Global private equity	3.295	0
0	2.000	Yorkshire Fund Managers	UK venture capital	2.000	0
1	14.880	Somerset County Council	Cash	12.429	1
100	**1,158.975**			**1188.737**	**100**

Note 10: Other investment balances

31 March 2011 £millions		31 March 2012 £millions
	Assets	
5.057	Accrued income	4.545
0.489	Accrued recoverable tax	0.544
2.125	Payments due on investments sold	2.019
7.671		7.108
	Liabilities	
-1.384	Payments not made on purchases and losses due on sales	-2.211
6.287		**4.897**

Note 11: Major holdings

As at 31 March 2011				As at 31 March 2012	
Rank	£millions	Stock	Description	Rank	£millions
1	36.816	Pioneer Emerging Market Equity Fund	Pooled fund of emerging-market equities	1	51.429
2	33.134	Nomura Japan Fund	Pooled fund of Japanese equities	2	34.507
4	20.167	Royal Dutch Shell	UK oil company	3	21.576
3	20.498	HSBC	UK Bank	4	16.714
7	14.927	BP	UK oil company	5	15.413
6	17.087	Vodafone	UK mobile phone company	6	14.382
9	11.513	Glaxosmithkline	UK drugs producer	7	14.287
5	19.020	Rio Tinto	UK mining company	8	11.323
8	12.750	BHP Billiton	UK mining company	9	10.155
18	6.313	Apple	US electronics company	10	9.234
-	-	Schroders Exempt PUT	UK property unit trust	11	9.087
12	8.610	Aviva Pooled Pension PUT	UK property unit trust	12	9.024
11	10.097	BG Group	UK gas company	13	8.983
13	8.191	Blackrock property fund	UK property unit trust	14	8.232
37	4.701	British American Tobacco	UK tobacco company	15	7.929
10	10.174	Xstrata	UK mining company	16	7.715
17	6.367	Standard Chartered	UK Bank	17	7.129
14	7.232	Exxon Mobil	US oil company	18	6.747
15	6.898	Hercules PUT	UK property unit trust	19	6.690
16	6.631	Tullow Oil	UK oil company	20	6.683

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 4.3% of the net investment assets.

Note 12. 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 2011				31 March 2012		
Asset £millions	**Liability £millions**	**Net value £millions**	**Fund**	**Asset £millions**	**Liability £millions**	**Net value £millions**
			Forward foreign-exchange contracts			
0.031	-1.675	-1.644	Standard Life Fixed Interest	0.386	-0.019	0.367
-	-0.261	-0.261	Aviva	0.163	-	0.163
1.727	-4.202	-2.475	Record Passive Fund	0.977	-2.331	-1.354
1.758	**-6.138**	**-4.380**		**1.526**	**-2.350**	**-0.824**
			Government bond futures			
-	-	-	UK government gilt future	-	-	-
-	-	-	Euro bond futures	-	-	-
-	-	-	US government treasury future	-	-	-
-	-	-		-	-	-
1.758	**-6.138**	**-4.380**		**1.526**	**-2.350**	**-0.824**

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.

In the Record passive fund the aim is to hedge 60% of the currency exposure of the currencies we have exposure to in our equity holdings. The currencies hedged are Australian dollars, Canadian dollars, Danish krone, euros, Hong Kong dollars, Japanese Yen, Norwegian krone, Singapore dollars, Swedish krona, Swiss francs and US dollars. The management of these exchange risks should reduce the volatility of returns of the overall fund in the long term.

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 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 2011				31 March 2012		
Asset £millions	Liability £millions	Net value £millions	Fund	Asset £millions	Liability £millions	Net value £millions
			Forward foreign-exchange contracts			
36.843	-38.487	-1.644	Standard Life Fixed Interest	47.387	-47.020	0.367
8.049	-8.310	-0.261	Aviva	8.860	-8.697	0.163
269.223	-271.698	-2.475	Record Passive Fund	125.476	-126.830	-1.354
314.115	**-318.495**	**-4.380**		**181.723**	**-182.547**	**-0.824**
			Government bond futures			
2.343	-2.343	-	UK government gilt future	0.916	-0.916	-
0.432	(0.43)	-	Euro bond futures	-	-	-
-	-	-	US government treasury future	1.242	-1.242	-
2.775	**-2.775**	**0.000**		**2.158**	**-2.158**	**-**
316.890	**-321.270**	**-4.380**		**183.881**	**-184.705**	**-0.824**

Note 13: Stock lending

31 March 2011		31 March 2012
£millions		£millions
30.398	Value of stock on loan	22.506
32.254	Record Active Fund	23.803
%	**Form of collateral provided**	**%**
20.1	UK Government debt	16.8
13.8	UK equities	3.0
-	US denominated corporate debt	0.6
61.1	US equities	75.5
5.0	€ denominated corporate debt	4.1
100.0		100.0

Note 14: Membership statistics

As at 31 March	2007	2008	2009	2010	2011	2012
Active scheme members	**19,071**	**19,886**	**20,022**	**20,450**	**20,492**	**19,505**
Pension holders						
Current being paid	9,126	9,706	10,126	10,821	11,664	12,301
Deferred (to be paid in the future)	10,059	10,897	12,787	13,817	14,923	16,816
Total	**38,256**	**40,489**	**42,935**	**45,088**	**47,079**	**48,622**
Contributors for each current pension holder	2.09	2.05	1.98	1.89	1.76	1.59

Note 15: 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 tables.

31 March 2011 £millions		31 March 2012 £millions
	Value of additional voluntary contributions	
3.834	Prudential	4.063
0.636	Equitable Life	0.511
4.470		4.574

2010/11 £millions		2011/12 £millions
	Additional voluntary contributions paid during the year	
0.658	Prudential	0.597
0.001	Equitable Life	-
0.659		0.597

Note 16: Related Parties

Pensions Committee members, Tim Carroll, Sam Crabb, Caroline Moore, Sarah Payne, William Wallace and John Wilkins are members of the Somerset County Council Pension Scheme.

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.

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 17: 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 18: Contingent liabilities

There were no contingent liabilities as at 31 March 2012.

Note 19: Post balance sheet events

There were no post balance sheet events as at 30 June 2012.

Note 20: 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 2012 being £1,189 million.

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 9 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 2012 by the amounts shown below.

	Value of Assets	Volatility	Increase in Assets	Decrease in Assets
	£millions	%	£millions	£millions
Asset Class				
UK equities	312.587	17.90	55.953	-55.953
Foreign equities	533.156	15.30	81.573	-81.573
UK Bonds	131.933	7.70	10.159	-10.159
Overseas bonds	40.168	13.20	5.302	-5.302
UK index-linked bonds	52.037	7.20	3.747	-3.747
Property	101.956	6.20	6.321	-6.321
Cash	12.429	-	-	-
Others	4.471	7.50	0.335	-0.335
Net investment assets	**1,188.737**		**163.390**	**-163.390**

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 £10 million 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 £12.4 million 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 13 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 12 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. This gives the fund access to in excess of £1 billion 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 12 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 21: 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 of 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 funds investment assets at 31 March 2012 into the 3 levels of the fair value hierarchy.

	Level 1 £millions	Level 2 £millions	Level 3 £millions
Asset Class			
UK equities	312.587		
Oversea equities	533.156		
Bonds	224.138		
Property funds		101.956	
Private Equity funds			5.295
Forward foreign-exchange contracts	-0.824		
Government bond futures	-		
Cash	12.429		
Net investment assets	**1081.486**	**101.956**	**5.295**

Note 22. Disclosures

A non material error was made in the preparation of the 2010-2011 accounts that has been corrected and the prior year comparators shown in these accounts have been restated. This has led to an increase in “recurring pensions” on the fund account of £0.021 million to £46.672 million for 2010-2011 and an increase in “other creditors” on the net asset statement of £0.021 million to £3.529 million at 31 March 2011.

There is also a restatement on the net asset statement within current assets at 31 March 2011. An amount of £4.054 million was incorrectly shown as “other debtors” when it should have been shown as “contributions due from employers”. As a result “other debtors” has been reduced by this amount to £2.375 million and “contributions due form employers” increased to £5.542 million.

JP Morgan Asset Management ceased to manage the US equity mandate on behalf of the fund on 31st December 2011. From the 1st January 2012 this mandate has been run by the in-house team on a passive basis. This change is reflected in note 9.

Under IFRS the fund must disclose what consideration it has given to accounting standards that have not been adopted. For the 2011-12 accounts the only such standard relates to the transfer of financial assets. Transfers of financial assets do not occur for the fund and as such no disclosure would be necessary if the fund adopted this standard.

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. The principle change in assumptions between 31 March 2011 and 31 March 2012 is to the real discount rate assumption. The discount rate is the yield on the iBoxx AA rated over 15 year corporate bond index as at the date of the net asset statement, which has been chosen to meet the requirements of IAS19. As the yield on these bonds has fallen from 5.5% to 4.6% this has significantly increased the value of the present value of the promised retirement benefits over the year.

Note 23: Actuarial valuation

An actuarial valuation measures the fund’s ability to meet its long-term liabilities (future costs). By law, we have to have actuarial valuations every three years. Our actuary assesses the likely growth in the value of the fund, and the probable amounts we will have to pay in pensions for current and former employees. The difference between the value of the fund’s assets and its liabilities decides the amount we have to contribute to the fund. At the date of the last actuarial valuation (31 March 2010), the market value of the fund was £1,075.5 million, which was equal to 77% of the fund’s discounted liabilities. We are trying to increase the value of the fund to 100% of its liabilities. We are moving towards this by making contributions in 2012/13 of 13.5% of payroll plus a sum of £4.88 million (13.5% of payroll plus a sum of £3.77 million 2011/12). The deficit on the fund is proposed to be recovered from employer’s contributions over a period of no more than 25 years.

The actuary uses the projected unit method to estimate the cost of future benefits from the pension scheme.

The last valuation was done based on the figures from 31 March 2010 and we will introduce any changes to our contribution from 1 April 2011. The most significant assumptions used at this valuation in March 2010 for future service were as follows. These assumptions do not match Somerset County Council’s because this is as at 31 March 2010 and Somerset County Council’s is as at 31 March 2012.

2010 actuarial valuation significant assumptions	% a year
Rate of return on investments	7.0
Salary and earnings increase	5.0
Rate of increase in pensions above the guaranteed minimum	3.0

More information about the pension fund

The accounts of the fund do not form part of our accounts as a whole. As a result, we do not include these in our net assets statement or fund account.

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.

Ex-dividend
A share is ‘ex-dividend’ (or ex-div) on a date set by a company when current shareholders are entitled to a dividend on their holding. Even if the holding is sold, the former owner will receive the income. On that date, the market price of a share will be adjusted to reflect the income due to the holder. (For example, a share which goes ‘ex-div’ with a dividend of 10p will see the market price reduce by that amount.) Stock may be sold ‘ex-div’ (without dividend entitlement) or ‘cum-div’ (with dividend entitlement).

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.

Venture capital
Finance for companies that are not listed on a stock exchange.

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:

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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.

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