SOMERSET COUNTY COUNCIL
STATEMENT OF ACCOUNTS
2013/14

AUDITED & APPROVED ACCOUNTS

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

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SOMERSET County Council

Contents

Note No.		Page
	Chief Financial Officer’s Introduction	1
	Statement of Responsibilities	11
	Independent Auditor’s Report to Members of Somerset County Council	12
	Annual Governance Statement 2013/14	16
	Statement of Accounting Policies	27
	Movement in Reserves Statement	45
	Balance Sheet	47
	Comprehensive Income and Expenditure Statement	49
	Cash Flow Statement	50
	Notes to the accounts:	
1	Prior Period adjustments	51
2	Accounting Standards that have been issued but have not yet been adopted	54
3	Critical judgements in applying Accounting Policies	56
4	Assumptions made about the future and other major sources of estimation uncertainty	57
5	Events after the Balance Sheet Date	58
6	Adjustments between Accounting Basis and Funding Basis under Regulation	59
7	Transfers to/from Earmarked Reserves	61
8	Analysis of our spending on services	62
9	Amounts Reported for Resource Allocation Decisions	64
10	Other Operating Expenditure	68
11	Surplus or deficit on revaluation of fixed assets	68
12	Financing and Investment Income and Expenditure	68
13	Taxation and Non Specific Grant Income	69
14	Trading Operations	69
15	Pooled Budgets	71
16	Members’ Allowances	72
17	Senior Officers' Remuneration	73
18	Termination Benefits	76
19	External Audit Fees	77
20	Dedicated Schools Grant	77
21	Government Grant Income	78
22	Partnerships and Related Party Transactions	79
23	Property Plant and Equipment	80
24	Intangible Assets	84
25	Impairment Losses	85
26	Assets Held for Sale	85
27	Leases	85
28	Private Finance Initiatives (PFI) and Similar Contracts	89
29	Heritage Assets – 5 year summary of transactions	91
30	Heritage Assets – Further information on our Museum collections	91

31	Financial Instruments:	
	Short-term/ long-term investments	95
	Long Term Debtors	95
	Short-term/ long-term borrowing	95
32	Nature and extent of risks arising from financial instruments	97
33	Short Term debtors	102
34	Short Term creditors	102
35	Other long term liabilities	102
36	Provisions	103
37	Revenue and Capital Grants/Contributions Receipt in Advance	104
38	Usable Reserves	105
39	Unusable Reserves	106
40	Cash and Cash Equivalents	111
41	Cash Flow – Operating activities	111
42	Cash Flow – Investing activities	112
43	Cash Flow – Financing activities	112
44	Capital Expenditure and Capital Financing	113
45	Contingent Liabilities	114
46	Contingent Assets	114
47	Trust Funds	114
48	Defined Benefit Pension Schemes	115
	Group Accounts	124
	Pension Fund	125
	Glossary of Terms	156

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 2013/14 and shows our financial position as at 31 March 2014. It includes the following statements and accounts:

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

An explanation of each of these statements is included within the statement itself. We use some technical terms in these accounts, which we have explained in the glossary on page 156

Important developments this year

Financial Context

In addition to the continued austerity measures impacting hard on Local Government, there were also significant changes to our funding mechanisms during 2013/14, following the localisation of Business Rates and Council Tax Benefits. Overall, the Council's core revenue funding was reduced by nearly £18m, or 5%. On top of this, the County Council also became responsible for a number of new functions and activities which transferred from other sectors, such as Public Health from the NHS and Community Care Grants and Crisis Loans from the Department for Work and Pensions.

Flooding

During the winter of 2013/14 unprecedented levels of flooding occurred across the Somerset Levels and severely impacted communities within the flooded areas and beyond. The floods reached critical levels and the impact for the communities was so significant that a major incident was called, which invoked joint working with the Police, Military, Environment Agency and District Councils, lead by a joint command. Although the financial cost has not been significant during 2013/14 there will be considerable costs for preventative works during 2014/15 and in recognition of the extraordinary circumstances Central Government paid over grant late in March to fund some of the work. This can be seen below in Table 1 within "Other Services" and on page 49 in the Comprehensive Income and Expenditure Account (Environmental & Regulatory Services) which shows within income the amount £18m of unspent grant at the end of the year which is ring-fenced and will pay for the works in 2014/15.

Schools converting to Academy status

Somerset schools have continued to opt to transfer to Academy status. During the year eighteen schools on the Authorities balance sheet transferred with a further three that transferred early 2014/15. These transfers continue to have an impact upon our finances, accounting for the year on year reduction in our schools reserves. This does not affect our ability to deliver services or the funding allocated to services.

Public Health

The Health and Social Care Act 2012 transferred Public Health responsibilities from the NHS to upper tier and unitary authorities. As a result of this change in responsibility on 1 April 2013 SCC took on new responsibilities and some Public Health Officers transferred to SCC from the NHS. This can be seen in the Comprehensive Income and Expenditure Account on page 49 This transfer of services gives local authorities opportunities to tailor local solutions to local problems, and to focus health and care services together to improve health and reduce inequalities. The funding of this service is met by ring-fenced government grant.

Revenue spending in 2013/14

In February 2013, we agreed our budget for 2013/14 at £329.4 million. This resulted in a band-D council tax of £1,027.30, which is the same as in 2012/13.

The following table shows that our actual spending was £335.9 million against the budget of £329.4 million which includes transfers. These figures are based on service responsibilities, rather than the total cost of providing services (including charges for support services, using assets, and adjustments to show the true cost of providing pensions to employees), which is used in the income and expenditure account on page 49.

Table 1: Comparison of actual spend against budget

Service	2013/14 budget £millions	2013/14 actual spending £millions	Difference £millions	Difference %
Adults & Health - Operations	82.8	83.5	0.7	0.8
Children & Families - Operations	42.1	43.1	1.0	2.4
Learning Disabilities - Operations	26.0	27.8	1.8	6.9
Somerset Waste Partnership	25.3	25.4	0.1	0.4
Adults & Health - Commissioner	23.0	21.4	-1.6	-7.0
Learning & Achievement - Operations	16.3	15.9	-0.4	-2.5
Children & Learning - Commissioning & Schools	29.7	28.8	-0.9	-3.0
Highways & Traffic Management	13.0	13.4	0.4	3.1
Transporting Somerset - Public, FE & Concessionary	13.1	12.2	-0.9	-6.9
Other Direct Services	16.0	-2.5	-18.5	-115.6
Support Services	46.2	45.4	-0.8	-1.7
	333.5	**314.4**	**-19.1**	**-5.7**
Non-service items (central costs, such as bank charges,	28.9	21.5	-7.4	-25.6
that cannot be linked to a particular service)	**362.4**	**335.9**	**-26.5**	**-7.3**
Transfer to or from (-):				
the carry-forward fund	-24.1	2.5	26.6	
revenue reserves which we have set aside	-4.6	-4.6	0	
the capital fund	1	0	-1	
general reserves	-5.3	0.2	5.5	
	329.4	**334.0**	**4.6**	
Funded by:				
Revenue Support Grant	89.7	89.7	0	
Business Rates	55.2	59.8	4.6	
Council Tax	184.5	184.5	0	
	329.4	**334.0**	**4.6**	

Carry forward fund

Services are allowed to spend up to their approved budgets. In 2013/14, this was £329.4 million. If services do not spend up to the value of their budgets they are allowed to save any amounts to use in future years, this is called the ‘carry forward fund’. Services also have other reserves, which they have set aside for certain purposes. In addition, some spending (for items outside our services' control) is funded from general reserves. For more analysis of the movements within our earmarked reserves see Note 7 in the main Statement of Accounts.

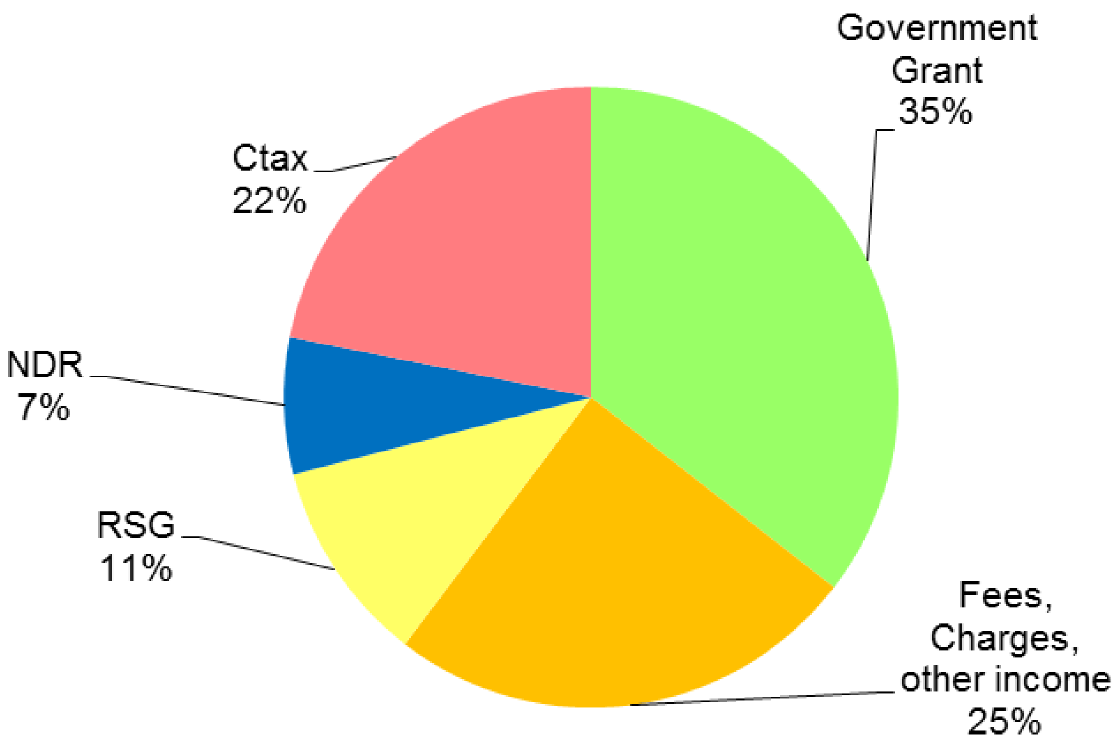
Of the £39.714 million total carried forward in 2013/14, £18.090 million is for individual school budgets and cannot be used for anything else. This is a decrease of £1.973 million over the previous year and is due mainly to the movement of schools to academy status. The other £21.624 million relates to carry forwards for particular services.

Financing

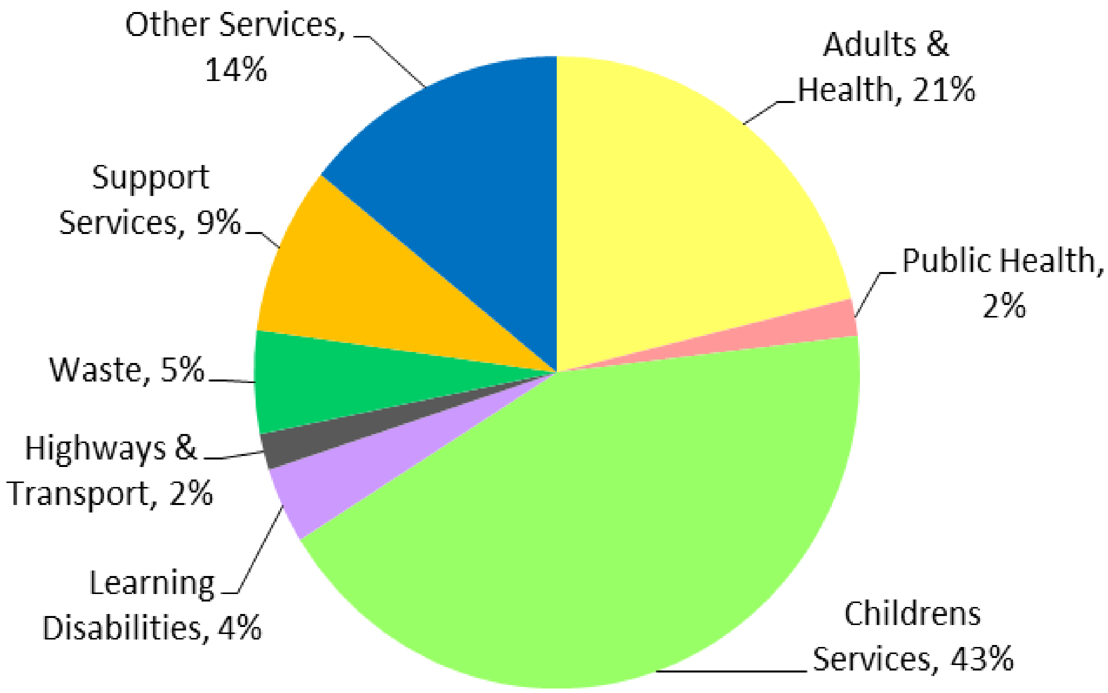
The diagrams below show where our money came from, which services we spent it on and how we spent it. It is important to note that the contribution from the local community through the Council Tax represents just 22% of our funding needs.

Analysis of total revenue spending (£821.7 million)

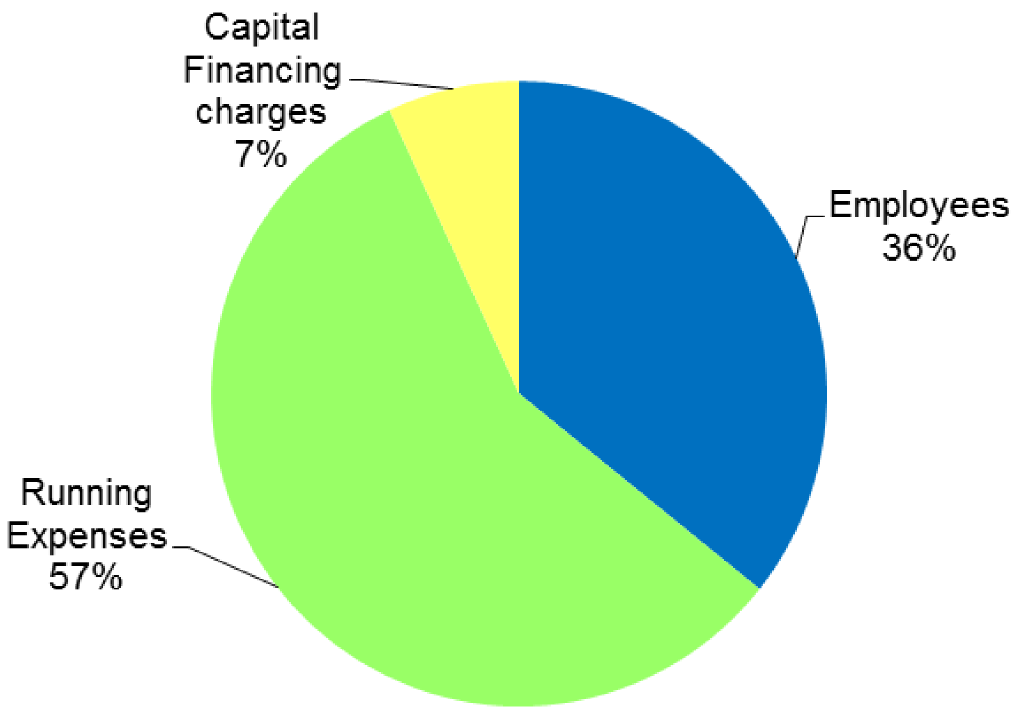
Where the money came from



Which services we spent it on



How we spent this



Capital spending in 2013/14

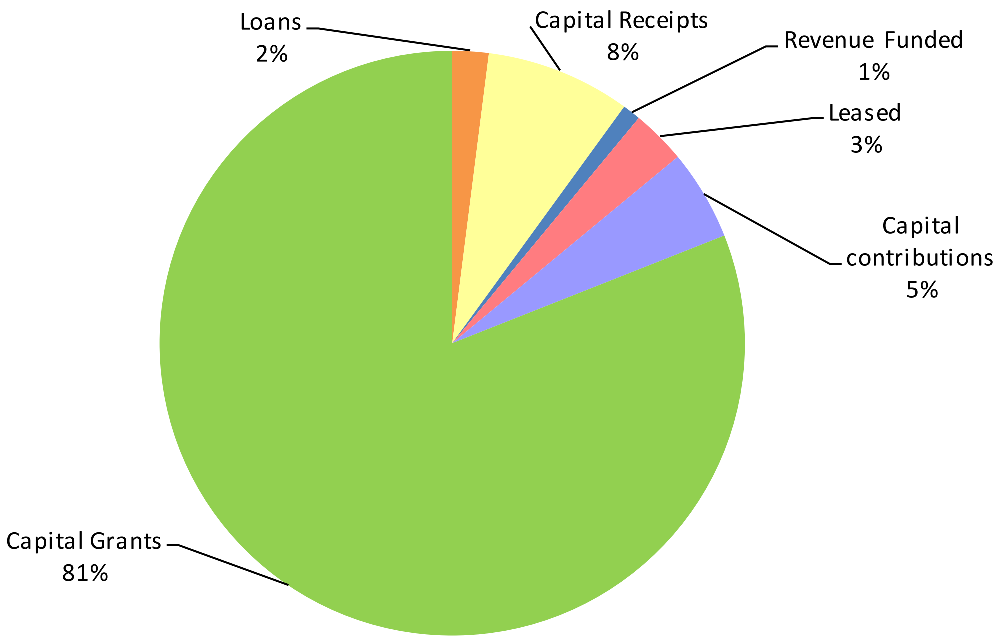
Alongside our day-to-day costs, we spend money on assets such as buildings, roads, vehicles and information and communications technology. This is capital spending. During 2013/14 our capital spending was £65.291m (118.174m in 2012/13). Of this we spent £24.762m on schools. This included spend on our Building Schools for the Future Project to replace 3 secondary schools in Bridgwater. We spent £30.064m on the county highways and transport infrastructure. The following table shows how we spent this money;

Scheme		2013/14 £millions	£millions
Children and Education Services	Penrose School	1.278	
	Building Schools for the Future in Bridgwater	1.743	
	Taunton Academy	5.511	
	Improvements to facilities to support Special Educational Needs including Autism	1.922	
	Provison of sufficient school places	2.959	
	Replacement of temporary classrooms	1.135	
	General improvements to schools and other assets associated with the delivery of education	10.214	
			24.762
Infrastructure	New road schemes to relieve congestion in Taunton	5.931	
	Structural Improvements to bridges	2.146	
	Structural Improvements to roads	19.624	
	Roads Small Improvement Schemes	2.363	
			30.064
Resources	Refurbishment of County Hall		3.763
Other	Super Fast Broadband	3.763	
	Other projects	2.939	
			6.702
	Total capital spending		65.291

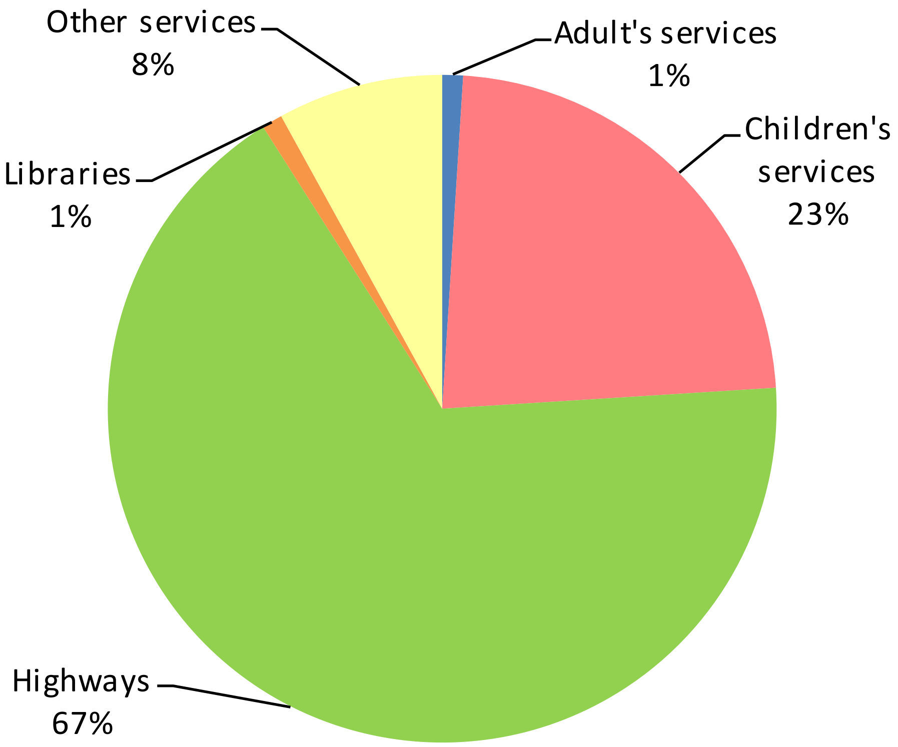
Analysis of total capital spending

During 2013/14, our total capital spending of £65.291 million included £18.851 million on assets we do not own.

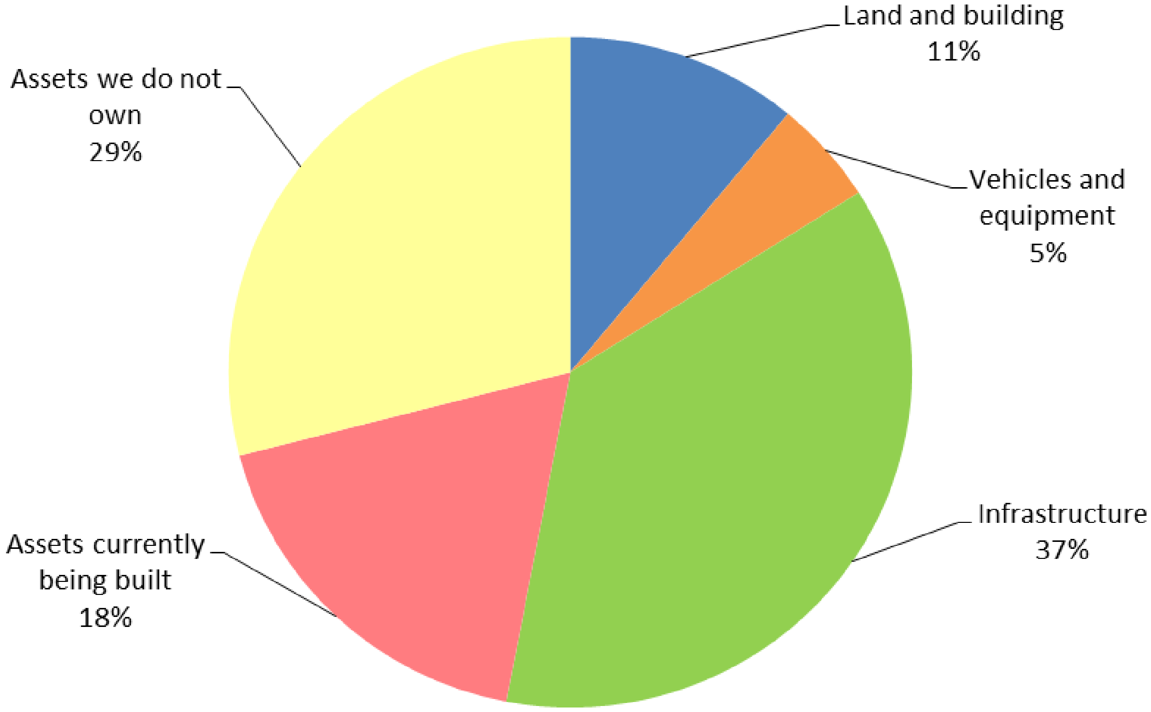
Where the money came from



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 2013/14, the total approval was £400 million (next year's approval is £400 million). On 31 March 2014, the amount we owed was £351.4 million (£352 million in 2012/13).

On 31 March 2013 £millions	Borrowing	On 31 March 2014 £millions
169.6	Public Works Loan Board (PWLB)	169.6
173.3	Other long-term loans	173.2
9.1	Other organisations investing in the Comfund (note 31)	8.6
352.0		351.4

In line with accounting practice, we must show the 'fair value' of our loans. The fair value of the PWLB loan is £203.211 million at 31 March 2014 (£219.061 million at 31 March 2013). The fair value of the other long-term loans is £198.484 million at 31 March 2014 (£227.954 million at 31 March 2013).

Usable Reserves

On 31 March we had the following reserves available:

On 31 March 2013 (Restated) £millions	Reserves	On 31 March 2014 £millions
20.0	Capital reserves	23.0
17.6	Capital Grants/Contributions Unapplied Reserves	11.4
9.0	Revenue reserves set aside for capital	10.2
28.2	Other revenue reserves which we have set aside	25.8
20.1	Schools' carry-forward fund	18.1
8.0	Services' carry-forward fund	21.6
24.1	General reserves (see the note below)	31.9
127.0		142.0

General reserves represent just 9.7% of the 2013/14 budget. This shows that we need to continue to operate within very strict financial limits.

Looking ahead to 2014/15 and the future

Economic outlook

The UK economy has shown signs of recovering from the deepest recession since quarterly data records began in 1955. Whilst the UK was in recession longer than the other G7 economies and was the last to exit, its GDP contraction was lower at 6.4%.

The housing market in particular seems to be driving the recovery with house prices increasing nationally by 9.9% in 2013/14, with particularly high increases experienced in London and the South East. This has prompted a significant increase in supply with a 20% increase in the number of houses coming to market as home owners seek to cash in on record values.

In terms of the local economy, this is encouraging news as building companies are once again building houses and planning permissions are increasing. This in turn fuels the economy as the demand for labour increases, leading to reducing levels of unemployment and increases in money being spent locally.

For local government, this is also encouraging as an increase in the number of homes generates more income collected through the Council Tax. The number of new local businesses is also increasing as entrepreneurs regain their faith in the economy leading to more Business Rate Tax retained locally under the government's new funding methodology.

Government's Austerity Measures Continue

The United Kingdom government austerity programme is a series of sustained reductions in public spending, intended to reduce the national budget deficit over the five-year period ending in 2015/16. This has led to central government funding for councils having been cut by over 40 per cent during this parliament. However, in the 2014 Spring Budget the Chancellor extended the proposed austerity period until at least 2018.

In December 2013, the Government indicated its proposed funding levels for local government and thereby confirmed that councils will continue to face significant spending reductions of 9.4% in 2014/15 and 13.2% in 2015/16. Beyond this point, the picture is not known. However it is widely expected that central government support to local government through the Revenue Support Grant will cease within the near future. We have therefore taken a prudent view that the severe funding reduction trend will continue for the foreseeable future.

Local Government now shoulders much more of the risk in terms of variances in funding streams. For example, Business Rates income can vary year-to-year due to new or discontinued businesses, or as a result of successful appeals by ratepayers against their rating valuations. Similarly, Council Tax collection rates could reduce following the localisation of Council Tax Benefits and their shift to become discounts leading to more families now being liable for at least a proportion of their Council Tax. Therefore, to protect the authority, we have consciously augmented our levels of reserves.

Tackling the funding deficit

The funding shortfall currently faced by the Council is £28m in 2015/16, with a further £8m in 2016/17 and £6m in 2017/18; a total of £42m across the three-year period.

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

Heritage
In November 2013 Cabinet decided that the delivery of the Heritage Service would be best suited through a not-for-profit trust able to deliver the same level of service as an in-house provider but at lower cost and will also have additional non-financial benefits, specifically for economic development, place, sustainability and flexibility.

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

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

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

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

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

Better Care Fund
In the 2013 Spending Round the Chancellor announced the £3.8bn pooled budget to be shared between the NHS and local authorities in 2015/16 on health and social care services aimed at improving the outcomes for the public, providing better value for money, and being more sustainable. Much joint work is being carried out locally to agree which services should be targeted and included within the new pooled funding in order to bring maximum benefit, along the likes of:

- Minimising delayed transfers of care
- Reducing the number of emergency admissions
- Increased effectiveness of reablement
- Improved admissions to residential and nursing care
- An improved patient and service user experience

Collaborative Working / Shared Services
In addition, the council continues to develop opportunities to work collaboratively with our partners or other public service organisations, building on the back of pioneering partnerships within the Somerset Waste Partnership, the South West Audit Partnership and the Southwest

One Joint Venture. During 2013/14, Somerset merged its Pensions administration team and Trading Standards service with those of Devon County Council.

Service Cost Recovery Project
The Service Cost Recovery Project continues to seek to ensure that fees and charges are set and recovered in such a way that recognises the needs of the Council to recover service costs, the value delivered to citizens and the ability of citizens to make payment. To support the delivery of this project the Council has commissioned PricewaterhouseCoopers LLP (PwC) who will bring considerable experience and a track record of successfully delivering similar projects in other authorities.

Flood Alleviation
The Environment Secretary, Owen Paterson asked for a single, overarching plan that will guide water and land management policies and investment on Somerset's Levels and Moors for the next twenty years. The plan was produced by a wide range of organisations, with the involvement of the community and was co-ordinated by Somerset County Council. The Plan contains an integrated mix of actions across the whole catchment which reduces the likelihood, depth and duration of flooding and makes us more able to cope with it.

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

Inspection and audit

We made these accounts available for public inspection (from 1 July to 28 July) so that people who pay Council Tax and rates, and other members of the public, could ask the auditor any questions. This is a legal requirement, but my department will answer questions from anyone with an interest at any time. These accounts have been approved by our Audit Committee on 25 September 2014.

Kevin Nacey CPFA
Director - Finance and Performance
(Chief Financial Officer)
25 September 2014

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 2014 and its income and spending for the year ending on that date.

Kevin Nacey CPFA
Director – Finance and Performance
(Chief Financial Officer)
Somerset County Council
25 September 2014

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

Opinion on the Authority financial statements

We have audited the financial statements of Somerset County Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet and 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 2013/14.

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

Respective responsibilities of the Director of Finance and Performance and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Somerset County Council as at 31 March 2014 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

Opinion on other matters

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

Matters on which we report by exception

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

We have nothing to report in these respects.

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

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements. We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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

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

We have undertaken our 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 2013, as to whether the Authority has proper arrangements for:
- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

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

Basis of qualified conclusion

In seeking to satisfy ourselves that the Authority has made proper arrangements for challenging how it secures economy, efficiency and effectiveness in its use of resources, we have considered reports issued by other regulators. An Ofsted inspection report published in August 2013 concluded that the overall arrangements for the Protection of Children in the Somerset County Council area were judged to be 'inadequate' and a follow up review by the Department for Education in July 2014 concluded that while progress is being made, there is still a significant amount of work to be done.

Qualified conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, with the exception of the matter reported in the basis for qualified conclusion paragraph above, we are satisfied that in all significant respects Somerset County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

Certificate

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

Simon Garlick
Director for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Hartwell House
55-51 Victoria Street
Bristol BS1 6FT
26 September 2014

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

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of Somerset County Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Asset Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

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

Respective responsibilities of the Director of Finance and Performance and auditor

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

Scope of the audit of the pension fund financial statements

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

Opinion on the pension fund financial statements

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2014 and the amount and disposition of the fund's assets and liabilities as at 31 March 2014; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

Opinion on other matters

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

Simon Garlick
Engagement Lead for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Hartwell House
55-61 Victoria Street
Bristol BS1 6FT
26 September 2014

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

Issue of audit opinion on the financial statements

In our audit report for the year ended 31 March 2014 issued on 26 September 2014 we reported that, in our opinion, the financial statements:

- gave a true and fair view of the financial position of Somerset County Council as at 31 March 2014 and of its expenditure and income for the year then ended; and
- had been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

Issue of audit opinion on the pension fund financial statements

In our audit report for the year ended 31 March 2014 issued on 26 September 2014 we reported that, in our opinion the pension fund's financial statements:

- gave a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2014 and the amount and disposition of the fund's assets and liabilities as at 31 March 2014; and
- had been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

Issue of qualified value for money conclusion

In our audit report for the year ended 31 March 2014 issued on 26 September 2014 we reported a qualified value for money conclusion in the following terms:

Basis of qualified conclusion

In seeking to satisfy ourselves that the Authority has made proper arrangements for challenging how it secures economy, efficiency and effectiveness in its use of resources, we have considered reports issued by other regulators. An Ofsted inspection report published in August 2013 concluded that the overall arrangements for the Protection of Children in the Somerset County Council area were judged to be 'inadequate' and a follow up review by the Department for Education in July 2014 concluded that while progress is being made, there is still a significant amount of work to be done.

Qualified conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, with the exception of the matter reported in the basis for qualified conclusion paragraph above, we are satisfied that in all significant respects Somerset County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

Certificate

In our report dated 26th September 2014 we explained that we could not formally conclude the audit on that date until consideration of matters brought to our attention by local government electors had been completed. These matters have now been dealt with. No matters have come to our attention since that date that would have a material impact on the financial statements on which we gave an unqualified opinion or a significant impact on our conclusion on the authority's arrangements for securing economy, efficiency and effectiveness.

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

Simon Garlick
Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Hartwell House
55-61 Victoria Street
Bristol
BS1 6FT

19 March 2015

Annual Governance Statement (2013/14)

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

Responsibility

We are responsible for making sure that we:

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

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

We are required under Regulation 4(2) of the Accounts and Audit (England) Regulations 2011 to conduct a review at least once a year of the effectiveness of our system of internal control and include a statement reporting on the review with any Statement of Accounts.

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

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

The purpose of the governance framework

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

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Somerset County Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised. It ensures they are managed efficiently, effectively and economically.

The governance framework has been in place at Somerset County Council for the whole of the year ended 31 March 2014 and up to the date of approval of the Statement of Accounts, The County Council continually seeks to improve its governance arrangements, and evidence of continued“ best practice” are found within the governance reviews referred to below.

The governance framework

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

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

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

Underpinning the County Council Plan have been a number of fundamental decisions about the future provision and providers of a number of key services for the community. These serve to shape the vision of the County Council in the future. Cabinet, (and Full Council where appropriate), have approved a new method of providing services to Somerset schools (July 2013); the commencement of a social enterprise partnership for provision of Learning Disabilities (February 2014) and for Somerset Skills and Learning (November 2013); the establishment of a not-for-profit charitable Trust for Heritage (November 2013); and the creation of joint working arrangements with Devon for Trading Standards (March 2013).

Where performance has not been in line with our vision, the County Council has acted positively. Having previously languished near the bottom of the DCLG's 150 strong performance list in relation to success with Troubled Families, through hard work with our District partners, we are now the 5th best performing authority (May 2014), resulting in additional government grant being made available for Somerset. To be clear about our vision for Corporate Parenting, we have set out our intentions in a robust Corporate Parenting strategy.

The County Council is very aware that the overall financial position remains acute, and that there is still the need to take difficult financial decisions as a result of the declining funding available and ever increasing demands upon our services.

The Medium Term Financial Plan (MTFP) is the mechanism used to assess, forecast and plan resources to maximise delivery of the County Council Plan. It is a rolling process and is maintained throughout the year; priorities, resources, funding pressures, efficiencies and savings are developed and adjusted to reflect the most recent information. The main aim of the MTFP is straightforward - to forecast the Council's finances for the medium term in order to identify actions that will need to be taken to ensure priorities are funded and the Authority lives within its means. The MTFP is a three year rolling programme, with annual budgets confirmed formally through the February democratic process.

Our processes for Strategic Financial Planning have received a positive assessment from Grant Thornton as part of their Financial Resilience report to Audit Committee (September 2013). The County Council continues to seek innovative ways to support its financial standing, such as its review of cost recovery in conjunction with Price Waterhouse Cooper, paying off debt earlier when advantageous, working in partnership with others and through the Change Programme workstream.

In order to maximise the lead time for implementing financial savings, and to mitigate the impacts where possible, Cabinet was able to take some final decisions about the budget from 2014/2015 at its November 2013 meeting. All funding and savings decisions were informed by detailed Impact Assessments.

A review of the Council's approach to Corporate Performance Management has been undertaken. At the heart of the resulting revised approach is a framework whereby all performance dimensions are considered alongside each other in order to make better decisions, and through which we can provide clarity on our objectives, the measures which really answer our performance questions, and build a more empowering system with more constructive challenge built in.

As a result of this review during 2013/2014, the Council began to report through a new mechanism, our Performance Wheel, which is also considered at the two Scrutiny Committees, and has also been taken to the Audit Committee. The Wheel presents a rounded view of the overall performance of the Council together with highlighting areas of concern which may require action.

Performance is reported formally to Cabinet on a quarterly basis, following discussion at the Senior Leadership Team meetings.

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

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

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

A number of significant consultations have been undertaken in the last 12 months, including services such as Learning Disabilities, Children Centres and Sheltered Housing. The results of these and many other consultations have been published and have informed decisions on service changes which are currently being implemented. In addition, the council has undertaken a substantial survey at 6 monthly intervals seeking people's views about their satisfaction with the council and preferences regarding aspects of service delivery. Each survey consists of face to face interviews with 1,000 people which are carried out at a number of locations across the County.

Through the Somerset Intelligence Partnership (which comprises the County Council and all District Councils) the 'Somerset Intelligence' and 'Inform Somerset' websites have been developed. These contain a wealth of data and information about Somerset, its residents, and a wide range of council services. With over 52,000 page views last year this is an important tool in improving our accountability.

An annual customer feedback report is produced twice a year and presented to the Senior Leadership Team and members.

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 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 and was reviewed in early 2014*;*
- a checklist for effective partnership working;
- making available guidance that supports members and officers working within partnership arrangements; and
- financial requirements as set out Financial Regulations for entering into partnerships.

Our intranet has a dedicated site specifically for Customers and Communities, which includes all the necessary guidance for ensuring that they are suitably involved in the County Council, including through tailored Consultations. Building on previous work, the County Council launched a new Customer Access Strategy 2014-2017 to work on priorities and delivery of the customer experience, overseen by a Digital and Customer Services Programme Board.

All public meetings of Committees and the Cabinet are open to stakeholders and interested persons to attend and make any representations or enable them to influence decisions or policy development. There is a weekly publication of all planned key decisions advertised on council's website and reported through democratic arrangements.

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

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

The Constitution is subject to annual review and regular updating through the Constitution Committee and Full Council. A new Constitution is to be agreed in July 2014. Contract Standing Orders were strengthened and approved by Cabinet in December 2013.

Significant revisions were made to the Officer Scheme of Delegation to ensure it remained fit for purpose and this was completed in Spring 2013. We continue with annual reviews and regular updating of the Officer Scheme of Delegation through the Senior Leadership Team – with further revisions to be finalised in May 2014.

An important part of our way of working has been to have strong programme and project management through the Change Programme methodology. By having a corporate approach to the management and delivery of projects, through overseeing boards and designated roles, this has allowed us to maintain strong process control in a continued period of change for the County Council, such as with the Public Health Transition Plan. The Change Portfolio (forward change plan) provides the basis on which activity is identified, prioritised and resourced, and this process ensures a consistent approach, including benefits tracking. A Programme Review Board oversees all, and the Change Programme regularly reports back to Cabinet members. Within this framework, individual projects can be managed, with both officers and members involved, such as the Connecting Devon and Somerset Board.

We review our financial management arrangements on an annual basis to ensure that they conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). These require the Chief Financial Officer to be a key member of the leadership team, actively involved in all material business decisions to ensure that they align with the authority’s financial strategy, and must promote good financial management to ensure that public money is safeguarded at all times and used economically, efficiently and effectively. A review carried out in April/ May 2014 confirmed that during the financial year 2013/14 the County Council complied with all these requirements, with a finance function that was resourced to be fit for purpose and professionally qualified and suitably experienced. The County Council has continued to be forward-thinking in its approach to financial management, with recent ideas including the Service Cost Recovery review, a new Income Code of Practice and decisions to pay off outstanding debt early when this has been to our financial benefit.

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

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

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

The Standards Committee has approved a new Member / Officer Protocol and recommended and circulated a guide for councillors in relation to how to demonstrate openness and transparency on personal interests. The Standards Committee continues to be the key members' group for the Monitoring Officer to take relevant codes of conduct and policies for comment and approval, such as the Whistleblowing Policy (March 2014). The Standards Committee has a direct reporting line to Full Council.

A Corporate Governance Board involving key officers from all areas of governance and chaired by the Section 151 Officer, (with its own Terms of Reference), 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. The Governance Board has a reporting line directly into the Senior Leadership Team through the Monitoring Officer's report.

Managers remain responsible for making sure members of staff keep to policies, procedures, laws and regulations and for making sure that we include risk management in our work. SCC has a number of codes and policies that set out clear expectations and standards, and this is supported by employee policies such as whistleblowing, HR standards of conduct, grievances, harassment and bullying. Information Security and Data Protection policies are now delivered to all staff by Metacompliance. There are plans in place to put in place an Officers' Code of Conduct and publish it in the Constitution.

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

To achieve this, the County Council:

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

Recognising the important role of the Scrutiny process during this period of significant change, the County Council has had 2 separate Scrutiny Committees in operation since May 2013, one for Place and one for People. Scrutiny Committee members receive both internal and external training about the effective role of Scrutiny. Both Scrutiny Chairmen are regular attendees at Cabinet meetings, and several Cabinet members are often present to hear Scrutiny debates. The level of public attendance and engagement at specific Scrutiny meetings has been such as to necessitate the use of larger venues to hold meetings.

Significant efforts have been made to improve the content of democratic arrangements, decision making records and opportunities to make comments and complaints through the County Council website, completed in early 2014.

The Audit Committee has been particularly active during 2013/2014, necessitating an additional formal public meeting at members' request to incorporate the workload. Its functions are modelled on those recommended by CIPFA, and it has a direct reporting link to Full Council. In addition, it has operated a call-in procedure to a number of key projects within the authority (such as the response to OFSTED and the Change Programme) to ensure that governance arrangements and reporting within these areas is robust.
.
We are also scrutinised through a number of independent regulatory and inspection bodies. Our internal audit is provided by the South West Audit Partnership, which from April 2013 became a not-for-profit local authority company owned by 12 local authorities in the region. Through an annual plan of work agreed by members, they audit key areas of potential risk, and review and provide opinions each year on the control framework and governance. Our external auditors, Grant Thornton, have statutory obligations to validate our accounts and issue an annual report giving an opinion on whether the accounts give a true and fair view of the financial position of the Council. They are also required to comment on our arrangements for "value for money". Other agencies, primarily central government departments, have the rights to scrutinise specific service delivery and provision across the County Council and report publically.

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

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

We also make sure that all our staff are fully aware of risk issues through induction and management training and by including a risk register in every service and project plan, which are now run through our Change Programme. To manage the large programmes of change projects which are taking place in the County Council has put in place the Corporate Programme Review Board which meets monthly to consider performance and risk.

The MTFP process included a risk analysis for each saving proposed, and at an overall level.

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

From the last annual governance review, it was acknowledged that the County Council needed to re-establish its risk management framework as part of the new organisational structure. Consequently, a number of positive steps have been taken to:-

- Include risk management specifically within the Performance Wheel reporting process.
- Report progress on re-embedding risk management to Audit Committee at every public meeting.

- Remind senior officers and “risk owners” of the need to confirm their risk reviews by updating the dedicated risk management system, JCAD, and providing any training they required.
- Review our Risk Management Policy and Strategy, which is scheduled for final approval by Cabinet in June 2014.

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

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

In order to maximise the benefits possible, we have centralised our training budgets, to be directed by Human Resources and Organisational Development against our key training objectives. HR run a number of tailored courses for officers, and have now supplemented this through the development of a Learning Centre, an on-line database of training courses that are available to all staff. This is a very cost-effective method of providing access to core training. “Lunch and Learn” sessions for managers are also still part of the training available.

Community Governance has run a series of mandatory governance based training sessions for senior managers, reminding them of our key processes and practices. The governance intranet pages are now very well established with e-learning guidance and templates readily available to officers, such as the decision-making process.

Internal communications through Core Brief and Your Somerset are used to draw to the attention of all staff any key messages, policies or training and development opportunities that are available.

The Member Development Strategy 2013-2017 was approved by both Cabinet and then Full Council (April 2013). The Council’s expectation is that each member will take personal responsibility for their own development and commit to take advantage of the training and opportunities on offer. There is an on-going Member Development Programme which provides:

- regular updates about statutory functions and key changes in legislation, policy or service delivery.
- opportunities for skills development and personal development planning
- opportunities for members to meet in small groups to discuss issues local to their areas.

We aim to achieve the Member Development Charter by the end of 2015.

Review of effectiveness

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

The Full Council has approved a Code of Governance for the County Council and a process for assessing the effectiveness of the governance framework on an annual basis. The officer Governance Board, led by the Section 151 Officer, carried out the review for the 2013/14 statement. The review took into account:

- Internal Audit's annual opinion report for 2013/14;
- the effectiveness of internal audit
- external auditors' comments;
- comments from other review agencies and inspectorates;
- assurance reviews carried out by each major service area
- a review by the Governance Board of the evidence available corporately to support the six Core Principles ;
- reports to the Audit Committee relating to risk management and key risks; and
- the review of effectiveness of the role of the Section 151 officer.

The results of the review were provided to management and key members to consider, and details to be included in the Annual Accounts will be considered by the Audit Committee on 19th June 2014.

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

Significant governance issues

A key source of evidence to support the Annual Governance Statement come from our internal auditors, and this comes from the Annual Report and Opinion of the South West Audit Partnership (SWAP). During the year, the South West Audit Partnership reported regularly to the Audit Committee and brought a number of control issues to the attention of the members. Overall, our internal auditors concluded that they could give "Reasonable" assurance, as most areas reviewed were found to be adequately controlled. The internal auditor also concluded that "risks are well managed" and also that he was "encouraged by the management response and readiness to accept and address the matters raised in audit reports".

The internal auditor did raise a number of issues that will need to be addressed concerning:-

- A number of IT audits where the auditor was not able to form an opinion because of insufficient evidence, or where applications did not meet expected business standards.

- Business continuity planning not supporting the continuity of service provision due to the lack of formal plans in plans allowing managers to review risks.

In our previous Annual Governance Statement and attendant Action Plan, we referred to the changing arrangements with South West One, with further services to be returned to the County Council, including some procurement and property functions. This has now been completed and new performance monitoring and reporting arrangements put in place with our partner.

In our previous Annual Governance Statement we also made reference to the unannounced inspection of the arrangements for the protection of children carried out in June/July 2013. With ministerial approval, we have established a Children and Young People's Improvement Board led by an independent chair. This Board has responsibility for the performance and actions against measures identified within the Council's Children's Improvement Programme.

Our own annual review of governance suggested that we could further strengthen our control framework by undertaking a number of actions during the next financial year. These include:

- A formal review of the Constitution (scheduled July 2014), including a Protocol on Keeping Members Informed and a Code of Conduct for Officers.
- Continue to review our risk management and reporting under the new Risk Management Policy and Strategy.
- Improve the access to our governance documents on the website to all staff and stakeholders.
- Continuing to review our existing partnership and commissioning arrangements, and particularly considering the new delivery models now approved for many of our services.

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 any needs for improvement that have been identified in our review of effectiveness and will monitor their implementation and operation on a regular basis throughout the year.

There are a number of circumstances that will impact on the governance and constitution of the County Council in 2014/15. The continued decline in financial resources available to the County Council will inevitably impact on our service delivery to the residents and visitors in Somerset, and the recent reforming of the County Council was undertaken with this in mind. The County Council understands that it will have to review its risk appetite as a result.

In 2013/2014, the County Council demonstrated that it has committed to changing fundamentally how services will be delivered in the future, through searching internal services reviews, through increased partnership working and even to finding alternative providers to deliver the services instead of through the County Council directly. Strong governance and leadership will be required to deliver these projects and the benefits they bring in 2014/2015 and beyond, in addition to continuing to provide the high standard of day-to-day services to our residents, visitors and businesses.

During the latter half of 2013/2014 the County Council faced a civil emergency with the severe weather and flooding experienced across large parts of our County. The response from our staff, working alongside many other agencies and with our volunteers, was a magnificent effort. There is still much work to do in terms of managing the recovery work and in using central government grant effectively to mitigate against future incidents, but we are confident that this can be achieved.

Key challenges will remain as to how the County Council works in the future. We continue to develop and deliver major projects that will have a major impact across the Council in 2014/2015, including delivering high speed broadband across Somerset, the Local Enterprise Partnership and the imminent Growth Fund to encourage economic growth, establishing the Services for Schools Enterprise, and finalising arrangements for the future of Learning Disabilities. We are also continuing our response and improvements to the OFSTED inspection findings.

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.

Pat Flaherty
Chief Executive
June 2014

John Osman
Leader of the Council
June 2014

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 2013/14, based on International Financial Reporting Standards.

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

2 The difference between Capital and Revenue

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

3 Accruals of Income and Expenditure

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

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

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

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

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

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

4 Cash and Cash Equivalents

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

5 Exceptional Items

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

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

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

Changes in accounting policies are only made when required by proper accounting practices or 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.

7 Presentation of Items in Other Comprehensive Income and Expenditure

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

a) Will not be reclassified subsequently to the Surplus or Deficit on the Provision of Services; and

b) Will be reclassified subsequently to the Surplus or Deficit on the Provision of Services when specific conditions are met.

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

8 Charges to Revenue for Using Assets

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

- depreciation attributable to the assets used by the relevant service;
- revaluation 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;

3) The NHS Pension Scheme, administered by the NHS Business Service Authority; and

4) The National Employment Savings Trust (NEST), administered by the NEST Corporation.

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

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

In relation to the Local Government Pensions Scheme, a revised IAS19 standard applied for accounting periods beginning on or after 1 January 2013. The main changes were:

- Removal of the expected return on assets, to be replaced by a net interest cost comprising interest income on the assets and interest expense on the liabilities, which are both calculated with reference to the discount rate;
- Some labelling changes to the Profit and Loss charge e.g. "Service cost" now includes what was previously described as the "Current Service Cost" plus the "Past Service Cost" plus any "Curtailments" and "Settlements";
- Administration expenses are now accounted for within the Profit and Loss charge; previously we made a deduction to the actual and expected returns on assets; and
- Remeasurements comprising the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – are charged to the Pensions Reserve as Other Comprehensive Income and Expenditure; and actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – are charged to the Pensions Reserve as Other Comprehensive Income and Expenditure .

Further details on the Local Government Pension Scheme can be found in note 48 on page 115.

10 Discretionary Benefits

The Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including Teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

11 Financial Instruments

<u>Financial Liabilities</u>

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

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

Financial Assets

Financial Assets are classified into two types:

1) Loans and debtors – assets that have fixed or determinable payments but are not quoted in an active market;

2) Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Debtors

Loans and debtors are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value, and are carried at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For the loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

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

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

12 Government Grants and Contributions (Including Donated Assets)

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

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

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

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

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

13 Intangible Assets

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

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

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

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

14 Leases

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

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Authority as Lessee

Finance Leases

Property, plant and equipment held under finance leases are recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the Property, Plant or Equipment – applied to the write down of the lease liability, and
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the authority at the end of the lease period).

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

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The Authority as Lessor

Finance Leases

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

Lease rentals receivable are apportioned between:

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

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

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

Operating Leases

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

15 Property, Plant and Equipment (PPE)

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

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

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

Recognition

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

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

Measurement

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

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

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

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

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

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

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

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

Depreciation

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

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

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

Componentisation

Where a high value asset, for example a building, includes a number of components with significantly different asset lives, we are required to identify and depreciate the components separately from the main asset. This additional analysis is only required for assets that we deem ‘significant’, so we are required to set a materiality threshold to assist with the identification of such assets. For 2013/14, we have set a materiality threshold of £1.5 million for individual assets and a significance level for separate components of 20% of the whole asset’s original cost. Consideration of componentisation is only required for assets that meet these two criteria. This is the minimum requirement (as defined by the Code) but services may choose to apply componentisation for assets below this threshold if it assists with asset planning.

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

Impairment

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

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

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

16 Accounting for Schools

Non-Current Assets

There are five main types of state school that all receive funding from the local authority or direct from Central Government. When considering whether these schools are an ‘asset’ to the authority and therefore require reporting within our accounts as a non-current asset

(PPE), the Code requires us to consider the substance and economic reality of our relationship with the school not merely its legal form.

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

Community schools

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

Foundation schools

These schools are funded by the local authority, but the schools are owned and managed by the governing body or charitable foundation. Accordingly, the 9 Foundation schools currently residing within the authority’s boundary have not been recognised in our Balance Sheet. Any subsequent expenditure incurred in relation to Foundation Schools is expensed through the Comprehensive Income and Expenditure Statement as revenue expenditure funded from capital under statute (REFCUS) in the year it is incurred (see Accounting Policy 21 for further details). As the authority retains no ownership or control over this type of school, there is no historic valuation data available and we believe that the cost incurred for a formal valuation now would not be commensurate with the benefits of the information.

Voluntary aided (VA) schools

These schools are owned by a charity (often a religious organisation such as a church) that also manages the school and employs the staff. The local authority provides support services and partially funds these schools, but as the ownership and control of these schools lies with the charity the 38 VA schools currently residing within the authority’s boundary have not been recognised in our Balance Sheet. Any subsequent expenditure incurred in relation to VA Schools is expensed through the Comprehensive Income and Expenditure Statement as revenue expenditure funded from capital under statute (REFCUS) in the year it is incurred (see Accounting Policy 21 for further details). As the authority retains no ownership or control over this type of school, there is no historic valuation data available and we believe that the cost incurred for a formal valuation now would not be commensurate with the benefits of the information.

Voluntary controlled (VC) schools

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

Academies

Academies are independently managed schools which operate outside the control of the local authority. Funding is provided directly by Central Government. The authority owns the freehold for these schools, and issues a long lease to the Academy Trust for the land and buildings. Under IAS17, we have reviewed the leasehold arrangement with the Academy Trusts and have identified it to be a 'finance' lease type arrangement. Accordingly, we have derecognised from our Balance sheet the 47 schools that have converted to academy status within the authority's boundary. Any subsequent expenditure incurred in relation to Academies is expensed through the Comprehensive Income and Expenditure Statement as revenue expenditure funded from capital under statute (REFCUS) in the year it is incurred (see Accounting Policy 21 for further details). As the authority retains no ownership or control over this type of school, there is little or no current historic valuation data available and we believe that the cost incurred for a formal valuation now would not be commensurate with the benefits of the information.

Revenue transactions

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

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

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

17 Disposals and Non-current Assets Held for Sale

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

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

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

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

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

18 Provisions

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

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

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

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

19 Contingent Assets and Liabilities

A contingent asset arises where an event has taken place that gives the Authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority.

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 assets and liabilities are not recognised in the Balance Sheet but are disclosed in Notes 45 and 46.

20 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.

21 Revenue Expenditure Funded from Capital Under Statute (REFCUS)

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

22 Private Finance Initiative (PFI) and Similar Contracts

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

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

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

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement;
- finance cost – an interest charge of 9.82% on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;

- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease); and
- life-cycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to property, plant and equipment when the relevant works are eventually carried out.

23 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.

24 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 2013/14 (SeRCOP)*. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

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

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

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

25 Inventories

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

26 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.

27 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.

28 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. As this year is the end of the introductory phase, there is no option to carry-forward allowances for use in respect of emissions in 2014/15.

29 Heritage Assets

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

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

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

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

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

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

Movement in Reserves Statement

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

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

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

Movement in Reserves Statement
For the years ended 31 March 2013 & 2014

	Note	Schools General Fund Balance (Restated) £m	Other General Fund Balance (Restated) £m	Earmarked Reserves £m	Capital Receipts Reserve £m	Capital Grants & Contributions Unapplied (Restated) £m	Total Usable Reserves (Restated) £m	Unusable Reserves (Restated) £m	Total Authority Reserves (Restated) £m
Balance as at 1 April 2012		**21.559**	**24.203**	**38.159**	**14.610**	**17.069**	**115.600**	**24.428**	**140.028**
Movement in Reserves during 2012/13									
Surplus or deficit (-) on provision of services		-	-70.291	-	-	-	-70.291		-70.291
Other Comprehensive Income and Expenditure	11/48	-	-	-	-	-	-	53.253	53.253
Total Comprehensive Income and Expenditure		**-**	**-70.291**	**-**	**-**	**-**	**-70.291**	**53.253**	**-17.038**
Adjustments between accounting basis & funding basis under regulations	6	-	75.806	-	5.362	0.529	81.697	-81.697	-
Net Increase/Decrease (-) before transfers to Earmarked Reserves		**-**	**5.515**	**-**	**5.362**	**0.529**	**11.406**	**-28.444**	**-17.038**
Transfers to/from (-) Earmarked Reserves	7	-1.496	-5.637	7.133	-	-	-	-	-
Increase/Decrease (-) in Year		**-1.496**	**-0.122**	**7.133**	**5.362**	**0.529**	**11.406**	**-28.444**	**-17.038**
Balance as at 31 March 2013 carried forward		**20.063**	**24.081**	**45.292**	**19.972**	**17.598**	**127.006**	**-4.016**	**122.990**
Movement in Reserves during 2013/14									
Surplus or deficit (-) on provision of services		-	-75.337	-	-	-	-75.337		-75.337
Other Comprehensive Income and Expenditure	11/48	-	-	-	-	-	-	224.189	224.189
Total Comprehensive Income and Expenditure		**-**	**-75.337**	**-**	**-**	**-**	**-75.337**	**224.189**	**148.852**
Adjustments between accounting basis & funding basis under regulations	6	-	93.508	-	2.990	-6.133	90.365	-90.365	-
Net Increase/Decrease (-) before transfers to Earmarked Reserves		**-**	**18.171**	**-**	**2.990**	**-6.133**	**15.028**	**133.824**	**148.852**
Transfers to/from (-) Earmarked Reserves	7	-1.973	-10.349	12.322	-	-	-	-	-
Increase/Decrease (-) in Year		**-1.973**	**7.822**	**12.322**	**2.990**	**-6.133**	**15.028**	**133.824**	**148.852**
Balance as at 31 March 2014		**18.090**	**31.903**	**57.614**	**22.962**	**11.465**	**142.034**	**129.808**	**271.842**

Balance Sheet as at 31 March 2014

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

1 April 2012 (Restated) £millions	31 March 2013 (Restated) £millions	Balance Sheet as at 31st March 2014	31 March 2014 £millions	Notes
892.384	921.093	Property, Plant & Equipment	972.035	23
1.295	1.311	Heritage assets	1.324	29
2.272	1.917	Intangible Non-Current assets	1.783	24
5.594	4.788	Long term investments	20.693	31
23.772	28.279	Long term debtors	26.318	31
925.317	**957.388**	**Long term assets**	**1,022.153**	
71.512	195.899	Short term Investments	124.075	31
3.697	1.327	Assets held for sale	6.468	26
0.602	0.363	Inventories	0.479	
44.044	38.438	Short term debtors	43.134	33
-	0.013	Intangible Current Asset	-	
148.323	34.886	Cash and cash equivalents	134.826	40
268.178	**270.926**	**Current Assets**	**308.982**	
-66.427	-78.640	Short term creditors	-78.686	34
-5.625	-1.910	Revenue Grants/Contributions Receipts in Advance	-1.070	37
-23.459	-19.058	Capital Grants/Contributions Receipts in Advance	-30.751	37
-4.701	-3.407	Provisions	-8.049	36
-9.814	-9.082	Short term borrowing	-8.642	31
-15.127	-	Long term borrowing repayable < 1 year	-9.200	31
-0.908	-3.045	Overdraft	-1.950	40
-126.061	**-115.142**	**Current Liabilities**	**-138.348**	
-0.798	-0.138	Provisions	-0.040	36
-342.882	-342.857	Long term borrowing repayable > I year	-333.594	31
-569.747	-635.014	Other long term liabilities	-576.518	35
-0.781	-0.015	Revenue Grants/Contributions Receipts in Advance	-	37
-13.198	-12.158	Capital Grants/Contributions Receipts in Advance	-10.793	37
-927.406	**-990.182**	**Long term liabilities**	**-920.945**	
140.028	**122.990**	**Net Assets**	**271.842**	
		Usable reserves		
21.559	20.063	General Fund - Schools	18.090	7/38
24.203	24.081	General Fund - Other	31.903	38
38.159	45.292	Earmarked Reserves - set aside for revenue purposes	57.614	7/38
14.610	19.972	Capital Receipts Reserve	22.962	38
17.069	17.598	Capital Grants/Contributions Unapplied Reserve	11.465	38
115.600	**127.006**		**142.034**	
		Unusable reserves		
182.999	216.524	Revaluation Reserve	321.327	39
390.458	355.599	Capital Adjustment Account	322.739	39
23.934	22.907	Deferred Capital Receipts	20.338	39
-564.657	-589.459	Pensions Reserve	-529.979	39
-11.135	-9.817	Accumulated Compensated Absences Adjustment Account	-7.867	39
2.829	0.230	Collection Fund Adjustment Account	3.250	
24.428	**-4.016**		**129.808**	
140.028	**122.990**	**Total Reserves**	**271.842**	

Kevin Nacey CPFA, Director – Finance and Performance
25 September 2014

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

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

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

Comprehensive Income and Expenditure Statement

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

31 March 2013				31 March 2014			
£millions (Restated) Expenditure	**£millions (Restated) Income**	**£millions (Restated) Net**	**Comprehensive Income and Expenditure Statement for the year ended 31 March 2014**	**£millions Expenditure**	**£millions Income**	**£millions Net**	**Notes**
			Continuing Operations				
3.528	-1.646	1.882	Central services to the public	4.042	-1.609	2.433	8
16.240	-2.345	13.895	Cultural and related services	16.992	-2.172	14.820	8
49.834	-19.316	30.518	Environmental and regulatory services	48.502	-38.121	10.381	8
9.478	-2.578	6.900	Planning services	10.943	-6.868	4.075	8
360.777	-250.399	110.378	Education and children's services	353.653	-234.491	119.162	8
61.829	-9.141	52.688	Highways and transport services	60.049	-8.026	52.023	8
11.783	-0.623	11.160	Housing services	8.356	-0.235	8.121	8
212.902	-72.378	140.524	Adult social care	214.253	-71.414	142.839	8
-	-	-	Public Health	12.098	-12.136	-0.038	8
7.097	-0.005	7.092	Corporate and democratic core	5.566	-	5.566	8
-5.015	-	-5.015	Non-distributed costs	-7.521	-0.042	-7.563	8
728.453	**-358.431**	**370.022**	**Surplus (-) / Deficit on Continuing Operations**	**726.933**	**-375.114**	**351.819**	
73.499	-15.865	57.634	Other operating expenditure	83.430	-11.438	71.992	10/14
-	-0.670	-0.670	Reversal of Icelandic investment impairment	-	-0.175	-0.175	
5.461	-	5.461	Procurement Transformation Sunk Cost	-	-	-	
42.244	-3.824	38.420	Financing and investment income and expenditure	46.625	-4.378	42.247	12
0.503	-0.525	-0.022	Surplus or deficit of discontinued operations	-	-	-	8
-	-400.554	-400.554	Taxation and non-specific grant income	-	-390.546	-390.546	13
850.160	**- 779.869**	**70.291**	**Surplus (-) or Deficit on Provision of Services**	**856.988**	**-781.651**	**75.337**	
		-47.021	Surplus (-) or Deficit on revaluation of non-current assets			-137.236	11
		-6.232	Remeasurement gains (-) / losses on pension assets/liabilities			-86.953	48
		-53.253	**Other Comprehensive Income and Expenditure**			**-224.189**	
		17.038	**Total Comprehensive Income and Expenditure**			**-148.852**	

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.

2012/13 (Restated) £millions		2013/14 £millions	Notes
70.291	Net surplus (-) or deficit on the provision of services	75.337	
-154.923	Adjustments to net surplus or deficit on the provision of services for non cash movements	-148.260	41
53.279	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	55.589	41
-31.353	Net cash flows from Operating Activities	**-17.334**	41
127.491	Investing Activities	-84.872	42
19.436	Financing Activities	1.171	43
115.574	**Net increase (-) or decrease in cash and cash equivalents**	**-101.035**	
147.415	**Cash and cash equivalents at the beginning of the reporting period**	**31.841**	
31.841	**Cash and cash equivalents at the end of the reporting period**	**132.876**	40

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

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

Notes to the core financial statements

Note 1: Prior-period adjustments

IAS19 Employee Benefits (as amended in 2011)

There have been extensive revisions made to the 2013/14 Code of Practice (England and Wales) on Local Authority Accounting, to incorporate the IAS19 (June 2011) Amendments. These amendments are designed to provide users of the financial statements with a much clearer picture of our current and future obligations resulting from the provision of defined benefit pension plans and how these obligations effect our financial position, financial performance and cashflows.

In addition to more detailed in-year disclosure requirements, the amendments have resulted in a change to our accounting policy that require us to restate the amounts reported in last years published accounts. Although there has been no need for us to restate our Balance Sheet for these amendments (as the amendments do not alter our overall Pensions liability) there have been some adjustments required to our other Primary Statements. It's important to note however that although the adjustments required are in excess of £8m, they are purely classification adjustments and our financial position has been unaffected by the adoption of the IAS19 amendments.

The effects of the restatement are as follows.

Changes to the Income & Expenditure Statement (page 49)

	2012/13 Statements £millions	Adjustments Made £millions
Surplus/Deficit on Provision of Service		
Financing and investment income and expenditure	30.300	8.109
Other Comprehensive Income & Expenditure		
Remeasurement gains (-) / losses on pension assets/liabilities	1.877	-8.109

Changes to the Movement in Reserves Statement (page 45)

Movement in Reserves Statement - Usable Reserves

	Statement of Accounts 2012/13	**Restatement**
	£millions	**£millions**
Movement in Reserves during 2012/13		
Surplus or Deficit (-) on the Provision of Services	-66.288	-8.109
Adjustments between the accounting basis and the funding basis under regulations	77.694	8.109

Movement in Reserves Statement - Unusable Reserves

	Statement of Accounts 2012/13 £millions	Restatement £millions
Movement in Reserves during 2012/13		
Other Comprehensive Income & Expenditure	45.144	8.109
Adjustments between the accounting basis and the funding basis under regulations	-77.694	-8.109

Changes to the Cash Flow Statement (page 50)

	As previously stated 31 March 2013 £millions	Restatement £millions	Restated Balance 31 March 2013 £millions
Net cashflows from Operating Activities			
Net surplus (-) or deficit on the provision of services	66.288	8.109	74.397
Adjustments to net surplus or deficit on the provision of services for non-cash movements	-150.931	-8.109	-159.040

Private Finance Initiatives (PFI) - Building Schools for the Future (BSF)

During the audit of our accounts last year, we were asked to review the estimated capital costs for our Building Schools for the Future PFI project. Although not material, it was felt that we had overstated the initial capital costs of the project and as a result our accounts were showing a reduced balance sheet position.

Having completed a full review of the associated capital costs, we have concluded that the capital costs recognised in our accounts last year for the BSF project were indeed overstated. As the BSF schools were derecognised last year (as a loss on disposal) this overstatement has resulted in last year’s deficit on provision of services being greater than it should it have been. The overstatement has also meant that our Unusable Reserves were also understated, as any disposal losses associated with non-current assets are charged to the Capital Adjustment Account. The 1 April 2012 and 31 March 2013 Balance Sheet has therefore been restated to adjust for the overstatement.

The effects of the restatement are as follows.

Changes to the Balance Sheet (page 47)

Opening 1 April 2012 Balance Sheet

	2012/13 Statements £millions	Adjustments Made £millions
Other Long Term Liabilities	-570.086	0.339
Capital Adjustment Account	390.119	0.339

Opening 31 March 2013 Balance Sheet

	2012/13 Statements £millions	Adjustments Made £millions
Short Term Creditors	-78.792	0.152
Other Long Term Liabilities	-639.307	4.293
Capital Adjustment Account	351.154	4.445

Changes to the Income & Expenditure Statement (page 49)

	2012/13 Statements £millions	Adjustments Made £millions
Other operating expenditure	61.751	-4.117
Financing and investment income and expenditure	30.300	0.011

Changes to the Movement in Reserves Statement (page 45)

Movement in Reserves Statement - Usable Reserves

	Statement of Accounts 2012/13	**Restatement**
	£millions	**£millions**
Movement in Reserves during 2012/13		
Surplus or Deficit (-) on the Provision of Services	-66.288	4.106
Adjustments between the accounting basis and the funding basis under regulations	77.694	-4.106

Movement in Reserves Statement - Unusable Reserves

	Statement of Accounts 2012/13	Restatement
	£millions	£millions
Movement in Reserves during 2012/13		
Balance as at 1 April 2012	24.089	0.339
Adjustments between the accounting basis and the funding basis under regulations	-77.694	4.106

<u>Changes to the Cash Flow Statement (page 50)</u>

	As previously stated 31 March 2013	Restatement	Restated Balance 31 March 2013
	£millions	£millions	£millions
<u>Net cashflows from Operating Activities</u>			
Net surplus (-) or deficit on the provision of services	66.288	-4.106	62.182
Adjustments to net surplus or deficit on the provision of services for non-cash movements	-150.931	4.117	-146.814
Financing Activities	19.447	-0.011	19.436

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

The Authority has yet to adopt the following accounting standards:

<u>IFRS 10 Consolidated Financial Statements (May 2011)</u>
IFRS 10 was issued in response to the financial crisis, during which there was significant criticism of accounting rules that permitted certain entities to remain off-balance sheet. The main change introduced by IFRS10 is a greater focus on which party has power over an entity rather than who has the majority of the risks and rewards.

This new standard comes into effect for accounting periods beginning on or after 1 January 2013 so does not affect the disclosures for 2013/14, but will need to be applied retrospectively to our accounts from 1st April 2014.

At the time of writing, the impact to our accounts is not fully known although based on our current arrangements is unlikely to be material.

<u>IFRS 11 Joint Arrangements (May 2011)</u>
IFRS 11 was issued at the same time as IFRS10 to improve the accounting for joint arrangements. It introduces a principle based approach that requires a party to a joint arrangement to recognise its rights and obligations arising from the arrangement. This will provide users with greater clarity about an entity’s involvement in its joint arrangements.

This new standard comes into effect for accounting periods beginning on or after 1 January 2013 so does not affect the disclosures for 2013/14, but will need to be applied retrospectively to our accounts from 1st April 2014.

At the time of writing, the impact to our accounts is not fully known although based on our current arrangements is unlikely to be material.

IFRS 12 Disclosures of Interests in Other Entities (May 2011)
IFRS12 requires the disclosure of information that enables users of financial statements to evaluate:

- The nature of, and risks associated with, its interests in other entities; and
- The effects of those interests on its financial position, financial performance and cash flows.

This new standard comes into effect for accounting periods beginning on or after 1 January 2013 so does not affect the disclosures for 2013/14, but will need to be applied retrospectively to our accounts from 1st April 2014.

At the time of writing, the impact to our accounts is not fully known although based on our current arrangements is unlikely to be material.

IFRS13 Fair Value Measurement
IFRS 13 defines fair value and sets out in a single IFRS a framework for measuring fair value. It also identifies the disclosure requirement for items measured at fair value.

This new standard comes into effect for accounting periods beginning on or after 1 January 2013, so does not affect the disclosures for 2013/14.

At the time of writing the CIPFA/LASAAC Local Authority Accounting Code Board have decided to defer the implementation of this standard to the 2015/16 Code, so there will be no impact to our accounts during 2014/15.

IAS 27 Separate Financial Statements (as amended in May 2011)
IAS 27 Separate Financial Statements (as amended in 2011) outlines the accounting and disclosure requirements for 'separate financial statements', which are financial statements prepared by a parent, or an investor in a joint venture or associate, where those investments are accounted for either at cost or in accordance with IAS 39.

This new standard comes into effect for accounting periods beginning on or after 1 January 2013 so does not affect the disclosures for 2013/14, but will need to be applied retrospectively to our accounts from 1st April 2014.

At the time of writing, the impact to our accounts is not fully known although based on our current arrangements is unlikely to be material.

IAS 28 Investments in Associates and Joint Ventures (as amended in May 2011)
IAS 28 Investments in Associates and Joint Ventures (as amended in 2011) outlines how to apply, with certain limited exceptions, the equity method to investments in associates and joint ventures. The standard also defines an associate by reference to the concept of "significant influence", which requires power to participate in financial and operating policy decisions of an investee (but not joint control or control of those polices).

This new standard comes into effect for accounting periods beginning on or after 1 January 2013 so does not affect the disclosures for 2013/14, but will need to be applied retrospectively to our accounts from 1st April 2014.

At the time of writing, the impact to our accounts is not fully known although based on our current arrangements is unlikely to be material.

IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities (as amended in December 2011)
These amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments: Presentation. The amendments clarify:

- The meaning of 'currently has a legally enforceable right of set-off'; and
- That some gross settlement systems may be considered equivalent to net settlement.

This new standard comes into effect for accounting periods beginning on or after 1 January 2014 so does not affect the disclosures for 2013/14, and as the amendments do not constitute a change of accounting policy we are not required to apply them retrospectively.

As the authority does not currently offset any of its financial instruments, there will be no impact in our accounts as a result of these amendments.

Note 3: Critical Judgements in Applying Accounting Policies

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

The critical judgements made in this Statement of Accounts are:

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

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

- There are currently inconsistencies across Local Authorities regarding the accounting treatment for different types of schools. Until CIPFA/LASAAC confirms the required accounting treatment for schools, we are treating Community and Voluntary Schools as on balance sheet and all other types as off balance sheet;

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

- The Authorities significant contracts have been reviewed and no embedded finance leases or service concessions were found. The Authority does have one Private Finance Initiative (PFI) contract for the provision of schools; note 28 (pg.89) provides further detail;

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

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

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

The items in the Balance Sheet at 31 March 2014 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Depreciation	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it more difficult to sustain spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge would increase by approximately £7.170 million for every year that useful lives had to be reduced.
PPE – Land & Buildings	Land & Buildings are carried in the balance sheet using different measurements bases as specified in the accounting policies on page 35. Where the measurement basis is not Historic Cost the Fair Value of the asset is estimated. We are dependent on information provided by professional valuers to ensure the fair value of assets is true and fair.	If asset values were understated by 1% PPE would need to increase by £6.4m and subsequent depreciation would increase by £0.128m
Provisions	The Authority has made a provision of £0.291m in relation to the Carbon Emissions scheme which started this year. The Authority has also recognised a provision for Non-Domestic Rate (NDR) appeals of £1.075m for the first time this year, as result of the localisation of business rates that came into effect during 2013/14.	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 £29,100. As a precepting authority, we are dependent on information provided by the district billing authorities to determine the likely value of the provision. If the billing authorities were to collectively under-estimate the likelihood of appeals success by 10% the liability would increase by £107,500.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. 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 £22.380 million (see the sensitivity analysis on pg.123 for other potential movements to the pensions liability as a result of changes in actuarial assumptions)

Accruals	The Authority makes a large number of accruals at the year end to account for timing differences in expenditure and income. Each service area is responsible for its own accruals and this helps with accuracy due to access to the right documentation to identify when accruals are appropriate.	If accruals are not correctly estimated they can have a substantial effect on the current year's result and consequently the following year when the accrual is reversed.
Doubtful Debt Impairment	The Authority calculates an impairment on its debtors to give a prudent position after accounting for risk of non-collection. The impairment for doubtful debts this year was £362,187.51.	If our assumptions are incorrect by 10% the increase or decrease in our impairment would be approximately £36,218.75.
Employee benefit accrual	The Authority is required to make an accrual for the value of employee benefits carried over at the year end. The accrual includes teachers and non teaching SCC staff, excluding term time only contracts. <u>Assumptions within the accrual</u> The teachers pay is based on actual salaries and actual days carried forward. The only assumption made is that 99.5% of teachers continue in their job or leave the authority. The other 0.5% are assumed to resign from one job and take up another position with the Authority. The SCC staff accrual has a few assumptions: 1) A sample was made to calculate the average leave and flexi time carried forward. This is applied to all staff for a period of 4 years before re-sampling. 2) An average rate for national insurance and superannuation has been made based on the actual charge for the year. This average has been applied to all staff. 3) We have reviewed which services staff left from and have decided to resample to ensure the accrual assumption is an accurate reflection of our staff base.	If accruals are not correctly estimated they can have a substantial effect on the current year's result and consequently the following year when the accrual is reversed. The accrual may be too high/low for the movement in the percentage of teachers taking up another position differs. 1) If actuals differ from the sample average, the accrual may be substantially under or over estimated. 2) SAP's limitation on Payroll reporting means we cannot show the actual rates paid per person. Some staff will not pay superannuation or have different national insurance rates to the average. The value of the accrual may be over/under estimated. 3) If the staff that left held excessive amounts of leave and flexi and this was paid off, it would affect the sample calculation and the accrual may be over/under estimated.
Academies	During the coming year a further number of schools will move to Academy status. There is a large number of accounting and operational processes which have to be completed to ensure the transition is effected accurately and positively.	If the assets relating to these schools are not accounted for correctly or if schools do not move to Academy status but this is not communicated there is a high risk that our balance sheet will be affected.
PFI & Similar Arrangements	PFI and similar arrangements have been considered to have an implied finance lease within the arrangement. In assessing the leases the Authority has estimated the implied interest rate within the leases to calculate interest and principal payments. The future RPI increase within the contracts has been estimated as remaining constant throughout the remaining period of the contract.	Any unexpected change in future RPI's will affect the contingent rent charged to Comprehensive Income & Expenditure Account. For example, a 1% increase in RPI next year would result in an additional £5,958 contingent rent being charged in our accounts.

Note 5: Events after the Balance Sheet Date

Three schools converted to Academy status between 1st April 2014 and 30th September 2014. This will mean that in 2014/15 the Balance Sheet will reduce by £6.521m in respect of the assets that have transferred with them. Their reserves will also move with them which at this stage are estimated to be £0.093 million

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

Adjustments between accounting basis and funding basis under regulations for the year ended 31 March 2014	General Fund - Schools & Other £millions	Capital Receipts Reserve £millions	Capital Grants & Contributions Unapplied £millions	Total Usable Reserves £millions	Unusable Reserves £millions	Total Authority Reserves £millions
Adjustments involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement						
Charges for depreciation and impairment of non current assets	41.279	-	-	41.279	-41.279	-
Impairment of current held for sale assets	2.845	-	-	2.845	-2.845	-
Revaluation losses on property, plant and equipment	9.148	-	-	9.148	-9.148	-
Amortisation of intangible assets	0.329	-	-	0.329	-0.329	-
Capital grants and contributions	-34.550	-	34.550	-	-	-
Reduction of Icelandic Investment Impairment	-0.175	-	-	-0.175	0.175	-
Revenue expenditure funded from capital under statute	3.646	-	15.205	18.851	-18.851	-
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	75.823	-	-	75.823	-75.823	-
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement						
Statutory provision for the financing of capital investment	-18.668	-	-	-18.668	18.668	-
Capital expenditure charged against the General Fund	-1.128	-	-	-1.128	1.128	-
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	-7.613	7.613	-	-	-	-
Use of the capital receipts reserve to finance new capital expenditure	-	-5.413	-	-5.413	5.413	-
Contribution from the capital receipts reserve towards administration costs of non current asset disposals	0.080	-0.080	-	-	-	-
Interest received on Rural Regeneration capital receipts reserve	-0.011	0.011	-	-	-	-
Principal repayments transferred to the capital receipts reserve	-	0.859	-	0.859	-0.859	-
Adjustments involving the Capital Grants Unapplied Reserve:						
Use of the capital grants unapplied reserve to finance new capital expenditure	-	-	-55.888	-55.888	55.888	-
Adjustments involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	54.150	-	-	54.150	-54.150	-
Employer's pension contributions and direct payments to pensioners payable in the year	-26.677	-	-	-26.677	26.677	-
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	-3.763	-	-	-3.763	3.763	-
Amount by which NNDR income credited to the Comprehensive Income and Expenditure Statement is different from NNDR income calculated for the year in accordance with statutory requirements	0.743	-	-	0.743	-0.743	-
Adjustment involving the Accumulating Compensated Absences Adjustment account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	-1.950	-	-	-1.950	1.950	-
Total adjustments between accounting basis & funding basis under regulations	**93.508**	**2.990**	**-6.133**	**90.365**	**-90.365**	**-**

Adjustments between accounting basis and funding basis under regulations for the year ended 31 March 2013	General Fund - Schools & Other £millions	Capital Receipts Reserve £millions	Capital Grants & Contributions Unapplied £millions	Total Usable Reserves £millions	Unusable Reserves £millions	Total Authority Reserves £millions
Adjustments involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement						
Charges for depreciation and impairment of non current assets	43.371	-	-	43.371	-43.371	-
Impairment of current held for sale assets	0.666	-	-	0.666	-0.666	-
Revaluation losses on property, plant and equipment	5.951	-	-	5.951	-5.951	-
Amortisation of intangible assets	0.325	-	-	0.325	-0.325	-
Capital grants and contributions	-42.480	-	42.480	0.000	0.000	-
Reduction of Icelandic Investment Impairment	-0.670	-	-	-0.670	0.670	-
Revenue expenditure funded from capital under statute	2.487	-	14.448	16.935	-16.935	-
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	67.830	-	-	67.830	-67.830	-
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement						
Statutory provision for the financing of capital investment	-22.836	-	-0.126	-22.962	22.962	-
Capital expenditure charged against the General Fund	-0.354	-	-	-0.354	0.354	-
Adjustments involving the Capital Receipts Reserve:						
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-11.077	11.077	-	-	-	-
Use of the capital receipts reserve to finance new capital expenditure	-	-6.464	-	-6.464	6.464	-
Contribution from the capital receipts reserve towards administration costs of non current asset disposals	0.289	-0.289	-	-	-	-
Interest received on Rural Regeneration capital receipts reserve	-0.011	0.011	-	-	-	-
Principal repayments transferred to the capital receipts reserve	-	1.027	-	1.027	-1.027	-
Adjustments involving the Capital Grants Unapplied Reserve:						
Use of the capital grants unapplied reserve to finance new capital expenditure	-	-	-56.273	-56.273	56.273	-
Adjustments involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	57.431	-	-	57.431	-57.431	-
Employer's pension contributions and direct payments to pensioners payable in the year	-26.397	-	-	-26.397	26.397	-
Adjustments involving the Collection Fund Adjustment Account:						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	2.599	-	-	2.599	-2.599	-
Adjustment involving the Accumulating Compensated Absences Adjustment account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	-1.318	-	-	-1.318	1.318	-
Total adjustments between accounting basis & funding basis under regulations	**75.806**	**5.362**	**0.529**	**81.697**	**-81.697**	**-**

Note 7: Transfers to/from Earmarked Reserves

This note shows the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund in 2013/14.

	Balance at 31 March 2012 £millions	Transfers Out 2012/13 £millions	Transfers In 2012/13 £millions	Net Movement 2012/13 £millions	Balance at 31 March 2013 £millions	Transfers Out 2013/14 £millions	Transfers In 2013/14 £millions	Net Movement 2013/14 £millions	Balance at 31 March 2014 £millions
General Fund:									
Operating Accounts	-0.026	-0.174	1.217	1.043	1.017	-0.644	0.004	-0.640	0.377
Economic Development Fund	1.510	-0.049	0.509	0.460	1.970	-	0.057	0.057	2.027
Capital Fund	3.234	-0.102	3.417	3.315	6.549	-	0.768	0.768	7.317
Invest to Save Fund	-	-	0.480	0.480	0.480	-	-	-	0.480
Self Financing Fund	-	-	0.400	0.400	0.400	-	-	-	0.400
CCN	-	-	-	-	-		0.177	0.177	0.177
PATS	-	-	-	-	-		0.117	0.117	0.117
Pensions Equalisation	0.606	-0.132	0.002	-0.130	0.476	-0.223	0.003	-0.220	0.256
Adult Social Care Capacity Planning Reserve	5.490	-2.564	1.967	-0.597	4.893	-1.905	0.391	-1.514	3.379
Public Health	-	-	0.083	0.083	0.083	-0.083	1.026	0.943	1.026
Carers Pooled Budget	-	-	0.122	0.122	0.122	-0.122	0.063	-0.059	0.063
UC Equalisation Reserve	1.613	-5.902	7.000	1.098	2.711	-0.986	1.308	0.322	3.033
Supply Mutual Fund Reserve	-	-	-	-	-	-	0.458	0.458	0.458
Legal Services - schools earmarked	-	-	-	-	-	-	0.095	0.095	0.095
LATS Earmarked Reserve	0.145	-0.145	0.145	-	0.145	-	0.001	0.001	0.146
Hinkley Project	0.923	-0.585	-	-0.585	0.338	-0.338	0.212	-0.126	0.212
Hinkley DCO Decision	0.144	-0.144	-	-0.144	-	-	-	-	-
National Grid	0.114	-0.114	0.121	0.007	0.121	-0.121	-	-0.121	-
Somerset Drug & Alcohol	0.141	0.000	0.366	0.366	0.507	-0.300	0.289	-0.011	0.496
Learning Disabilities	0.300	-0.300	-	-0.300	-	-	-	-	-
Dickinson Papers EMR	0.016	-0.016	0.008	-0.008	0.008	-0.008	-	-0.008	-
Superfast Broadband	0.017	-0.017	0.038	0.021	0.038	-0.038	0.168	0.130	0.168
Social Worker Trainees	-	-	-	-	-	-0.176	0.292	0.116	0.116
Aiming High	-	-	-	-	-	-0.200	0.200	-	-
Targeted Youth	-	-	-	-	-	-	0.012	0.012	0.012
Substance Misuse	-	-	-	-	-	-0.034	0.034	-	-
Refuse & Recycling Contract	-	-	-	-	-	-	0.213	0.213	0.213
Local Enterprise Partnership (LEP)	-	-	-	-	-	-	0.235	0.235	0.235
SALIX - Env Reg	0.032	-0.032	-	-0.032	-	-	-	-	-
Change Programme	-	-0.233	4.500	4.267	4.267	-1.198	-	-1.198	3.069
LAA Performance Reward	-	-0.179	0.641	0.462	0.462	-0.462	-	-0.462	-
SWP - WDA	0.703	-0.615	-	-0.615	0.088	-0.045	0.399	0.354	0.442
SWP - SCC	-	-	-	-	-	-	0.138	0.138	0.138
Environment Commuted Sums Reserve	1.004	-	0.137	0.137	1.141	-	0.346	0.346	1.487
School Improvement Board	-	-	-	-	-	-0.250	1.000	0.750	0.750
Dredging 4 Somerset Rivers	-	-	-	-	-	-	0.484	0.484	0.484
Museums - Silver Collection/ Bequests	0.055	-	0.024	0.024	0.079	-	0.021	0.021	0.100
Records Bequest	0.045	-	0.001	0.001	0.046	-	-	-	0.046
Insurance Fund Reserve	5.352	-	0.509	0.509	5.861	-2.976	0.042	- 2.934	2.927
Youth Bank	0.055	-0.010	-	-0.010	0.045	-0.004	-	-0.004	0.041
Central Schools Budget - Compact	-	-	3.745	3.745	3.745	-0.421	-	-0.421	3.324
Trust Funds	0.006	-0.002	-	-0.002	0.004	-0.004	-	-0.004	-
BSF Bridgwater Equaliation Reserve	-	-	0.707	0.707	0.707	-	1.034	1.034	1.741
Repairs and Maintenance Fund (inc BMIS)	0.643	-	0.285	0.285	0.928	-0.301	0.008	-0.293	0.635
Directorate Budget Carry Forwards	16.037	-16.998	9.022	-7.976	8.061	-8.250	21.816	13.566	21.627
Total excluding School Balances	38.159	-28.313	35.446	7.133	45.292	-19.089	31.411	12.322	57.614
Balances held by schools under a scheme of delegation	21.559	-21.559	20.063	-1.496	20.063	-20.063	18.090	-1.973	18.090
Total	**59.718**	**-49.872**	**55.509**	**5.637**	**65.355**	**-39.152**	**49.501**	**10.349**	**75.704**

Note 8: Analysis of our spending on services

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

2012/13 Spending less income £millions		2013/14 Total spending £millions	2013/14 Total income £millions	2013/14 Spending less income £millions
	Central services to the public			
0.266	Registration of births, deaths and marriages	1.613	-0.956	0.657
0.206	Emergency planning	0.912	-0.124	0.788
-0.197	Local land charges	0.036	-0.249	-0.213
0.836	Grants (including citizens advice bureaus)	0.279	-	0.279
0.771	Coroner's court	0.922	-	0.922
-	Other court services	0.280	-0.280	-
1.882		**4.042**	**-1.609**	**2.433**
	Cultural and related services			
2.844	Culture and heritage	3.418	-0.551	2.867
2.155	Open spaces	2.189	-0.632	1.557
1.698	Recreation and sport	1.593	-0.014	1.579
0.010	Tourism	0.056	-0.014	0.042
7.188	Library service	9.736	-0.961	8.775
13.895		**16.992**	**-2.172**	**14.820**
	Environmental services			
0.104	Agricultural services	0.564	-0.477	0.087
0.039	Coast protection	0.005	-	0.005
0.334	Flood defence	0.840	-18.652	-17.812
0.135	Community safety - safety services	0.126	-0.004	0.122
0.634	Community safety - crime reduction	0.644	-0.030	0.614
2.019	Regulatory services	2.222	-0.617	1.605
-1.010 *	Waste collection	16.921	-18.187	-1.266 *
17.381	Waste disposal	19.184	-0.132	19.052
10.882	Recycling	7.996	-0.022	7.974
30.518		**48.502**	**-38.121**	**10.381**
	Planning and development services			
1.193	Planning policy	1.695	-0.500	1.195
-0.014	Environmental initiatives	0.045	-0.140	-0.095
3.400	Economic development	6.247	-5.181	1.066
0.727	Development control	0.621	-0.067	0.554
0.053	Economic research	0.658	-0.705	-0.047
0.336	Business support	0.510	-0.258	0.252
1.205	Community development	1.167	-0.017	1.150
6.900		**10.943**	**-6.868**	**4.075**
	Education services			
13.753	Early Years	31.000	-21.211	9.789
16.495	Primary schools	140.988	-122.600	18.388
8.296	Secondary schools	66.107	-53.365	12.742
2.168	Special schools	28.196	-25.776	2.420
3.754	Services to young people	3.721	-0.390	3.331
15.886	Other school-related education functions	23.384	-6.598	16.786
60.352		**293.396**	**-229.940**	**63.456**
113.547		**373.875**	**-278.710**	**95.165**

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

Note 8 (continued)

2012/13 Spending less income £millions		2013/14 Total spending £millions	2013/14 Total income £millions	2013/14 Spending less income £millions
	Children's social care			
15.543	Service strategy inc commissioning	18.183	-1.913	16.270
27.425	Children looked after	31.242	-0.660	30.582
3.308	Family support services	3.823	-0.250	3.573
1.060	Youth justice	1.913	-0.755	1.158
0.035	Children and young people's safety	0.699	-0.104	0.595
-0.055	Asylum seekers	0.097	-0.044	0.053
2.710	Other children and family services	4.300	-0.825	3.475
50.026		**60.257**	**-4.551**	**55.706**
	Highways and transport services			
5.790	Transport, planning, policy and strategy	8.783	-3.052	5.731
1.901	Highways structural maintenance	1.645	-0.767	0.878
17.118	Capital charges relating to construction	18.973	0.000	18.973
8.237	Environment safety & routine maintenance	7.331	-0.128	7.203
4.189	Street lighting	4.179	-0.029	4.150
1.629	Managing traffic and road safety	1.940	-0.498	1.442
-0.019	Parking	1.832	-1.695	0.137
11.368	Public transport	13.533	-1.856	11.677
2.475	Winter maintenance	1.833	-0.001	1.832
52.688		**60.049**	**-8.026**	**52.023**
	Housing services			
11.112	Supporting people	8.351	-0.235	8.116
0.048	Other housing	0.005	0.000	0.005
11.160		**8.356**	**-0.235**	**8.121**
	Adult social care			
0.114	Service strategy	0.182	0.000	0.182
67.328	Older people	99.378	-33.454	65.924
11.605	Adults with physical disabilities	13.401	-2.007	11.394
51.079	Adults with learning disabilities	77.854	-22.975	54.879
10.548	Adults with mental-health needs	11.348	-1.354	9.994
-0.150	Other adult services (inc joint equipment)	12.090	-11.624	0.466
140.524		**214.253**	**-71.414**	**142.839**
	Public Health			
-	Sexual health	3.543	-3.039	0.504
-	NHS check	0.236	-0.270	-0.034
-	Public health advice	0.040	-0.046	-0.006
-	Obesity	0.638	-0.734	-0.096
-	Physical activity	0.139	-0.161	-0.022
-	Substance misuse	5.608	-6.300	-0.692
-	Smoking	1.471	-1.029	0.442
-	Children 5-19	0.423	-0.487	-0.064
-	Miscellaneous	0.000	-0.070	-0.070
-		**12.098**	**-12.136**	**-0.038**
	Corporate and democratic core			
1.857	Democratic representation and management	2.710	0.000	2.710
5.235	Corporate management	2.856	0.000	2.856
7.092		**5.566**	**-**	**5.566**
	Non-distributed costs			
-5.015	(we cannot share between services)	-7.521	-0.042	-7.563
370.022	**Total continuing services**	**726.933**	**-375.114**	**351.819**
-0.022	**Total discontinued services -** Note 5	0.000	0.000	0.000
370.000	**Total spending on services**	**726.933**	**-375.114**	**351.819**

Note 9: Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the *Service Reporting Code of Practice*. However, decisions about resource allocation are taken by the Authority's Cabinet on the basis of budget reports analysed across 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 2013/14

	Adults & Health (inc. Public Health) - Commissioning & Ops £ millions	Children & Learning - Commissioning & Ops £ millions	Learning Disabilities - Ops £ millions	Highways, Traffic & Transport £ millions	Other Direct Services £ millions	Total £ millions
Fees, charges & other service income	71.088	13.044	3.144	8.199	68.703	164.178
Government grants	14.647	49.278	0.811	18.576	197.746	281.058
Total Income	**85.735**	**62.322**	**3.955**	**26.775**	**266.449**	**445.236**
Employee expenses	16.622	37.216	29.236	6.416	177.559	267.049
Other operating expenses	173.581	91.816	2.711	31.635	126.974	426.717
Support Service Recharges	12.675	14.649	5.030	4.441	9.190	45.985
Total operating expenses	**202.878**	**143.681**	**36.977**	**42.492**	**313.723**	**739.751**
Net cost of services	**117.143**	**81.359**	**33.022**	**15.717**	**47.274**	**294.515**

Directorate Income and Expenditure 2012/13

	Adults & Health - Commissioning & Ops £ millions	Children & Learning - Commissioning & Ops £ millions	Learning Disabilities - Ops £ millions	Highways, Traffic & Transport £ millions	Other Direct Services £ millions	Total £ millions
Fees, charges & other service income	71.861	15.698	3.977	5.837	59.860	157.233
Government grants	2.745	34.427	0.000	1.596	218.164	256.932
Total Income	**74.606**	**50.125**	**3.977**	**7.433**	**278.024**	**414.165**
Employee expenses	17.839	49.929	28.934	5.625	194.788	297.115
Other operating expenses	160.572	73.816	3.486	28.764	125.493	392.131
Support Service Recharges	13.198	11.048	6.363	3.173	5.197	38.979
Total operating expenses	**191.609**	**134.793**	**38.783**	**37.562**	**325.478**	**728.225**
Net cost of services	**117.003**	**84.668**	**34.806**	**30.129**	**47.454**	**314.060**

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.

2012/13 £ millions	Reconciliation to Net Cost of Services in Comprehensive Income & Expenditure Statement	2013/14 £ millions
314.060	Cost of Service in Service Analysis	**294.515**
5.164	Add services not included in main analysis	-4.254
50.798	Add amounts not in management reports but needed for I&E	61.558
-	Remove amounts reported to management not included in Comprehensive Income& Expenditure Statement	-
370.022	**Net Cost of Services in Comprehensive Income & Expenditure Statement**	**351.819**

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.

2013/14

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	164.178	0.041	22.768	-	18.858	205.845	9.555	215.400
Surplus or deficit on associates and joint ventures	-	-	-	-	-	-	-	-
Interest and investment income	-	-	-	-	-	-	4.378	4.378
Income from council tax / NDR	-	-	-	-	-	-	247.441	247.441
Government grants and contributions	281.058	-	-	-	5.915	286.973	143.104	430.077
Total Income	**445.236**	**0.041**	**22.768**	**-**	**24.773**	**492.818**	**404.478**	**897.296**
Employee expenses	267.049	2.981	1.058	-	26.535	297.623	-	297.623
Other service expenses	426.717	-7.194	11.623	-0.807	44.223	474.562	9.642	484.204
Support service recharges	45.985	-	-	-	-45.985	-	-	-
Depreciation, amortisation and impairment	-	-	72.452	-	-	72.452	-0.175	72.277
Interest payments	-	-	-	-	-	-	46.625	46.625
Precepts & levies	-	-	-	-	-	-	0.770	0.770
Loss on revaluation of current assets held for sale	-	-	-	-	-	-	2.845	2.845
Gain or Loss on disposal of fixed assets	-	-	-	-	-	-	68.289	68.289
Total operating expenses	**739.751**	**-4.213**	**85.133**	**-0.807**	**24.773**	**844.637**	**127.996**	**972.633**
Surplus or deficit on the provision of services	**294.515**	**-4.254**	**62.365**	**-0.807**	**-**	**351.819**	**-276.482**	**75.337**

2012/13

Reconciliation to Subjective Analysis	Service Analysis £ millions	Services not in analysis £ millions	Not reported to management £ millions	Not included in CIES £ millions	Allocation of recharges £ millions	Net cost of services £ millions	Corporate amounts £ millions	Total £ millions
Fees, charges & other service income	157.233	-	19.470	-0.525	14.659	190.837	10.319	201.156
Surplus or deficit on associates and joint ventures	-	-	-	-	-	-	-	-
Interest and investment income	-	-	-	-	-	-	3.824	3.824
Income from council tax	-	-	-	-	-	-	322.967	322.967
Government grants and contributions	256.932	-	-	-	3.056	259.988	77.587	337.575
Total Income	**414.165**	**-**	**19.470**	**-0.525**	**17.715**	**450.825**	**414.697**	**865.522**
Employee expenses	297.115	4.870	-1.318	-	14.132	314.799	-	314.799
Other service expenses	392.131	0.294	9.287	-5.474	42.562	438.800	15.077	453.877
Support service recharges	38.979	-	-	-	-38.979	-	-	-
Depreciation, amortisation and impairment	-	-	67.248	-	-	67.248	-0.670	66.578
Interest payments	-	-	-	-	-	-	42.244	42.244
Precepts & levies	-	-	-	-	-	-	0.605	0.605
Loss on revaluation of current assets held for sale	-	-	-	-	-	-	0.666	0.666
Gain or Loss on disposal of fixed assets	-	-	-	-	-	-	57.044	57.044
Total operating expenses	**728.225**	**5.164**	**75.217**	**-5.474**	**17.715**	**820.847**	**114.966**	**935.813**
Surplus or deficit on the provision of services	**314.060**	**5.164**	**55.747**	**-4.949**	**-**	**370.022**	**-299.731**	**70.291**

Note 10: Other Operating Expenditure

2012/13 (restated) £millions		2013/14 £millions
57.044	(Gain)/losses on the disposal of non-current assets	68.290
0.666	Loss on the revaluation of current assets held for sale	2.845
-0.681	(Surplus) or deficit from trading activities (see note 14)	0.087
	Levies:	
0.600	- Environment Agencies	0.596
0.121	- Devon and Severn IFCA	0.117
0.066	- Magistrates Courts	0.057
-0.182	- South West Councils	-
57.634		**71.992**

The loss on disposal of non-current assets during 2013/14 was mainly due to the 18 schools that convert to Academy status during 2013/14 which resulted in a combined loss of £65.887 million.

Note 11: Surplus or deficit on revaluation of fixed assets

2012/13 £millions		2013/14 £millions
-49.869	Revaluations gains credited to the Revaluation Reserve	-156.113
2.848	Impairment losses charged to the Revaluation Reserve	18.877
-47.021		-137.236

During 2013/14, we carried out a formal valuation on a wider range of our portfolio than in previous years. This change in methodology was a direct result of the CIPFA/LASSAAC Post Implementation Review of IFRS that provided clarification of the IAS16 requirements in relation to the frequency of asset valuations. As a greater proportion of our assets received a formal valuation during 2013/14, and the general pattern for valuations was an increase, we have reported a greater revaluation gain than in 2012/13.

Note 12: 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.

2012/13 (Restated) £millions		2013/14 £millions
16.963	Interest payable and similar charges	20.668
25.281	Net pensions interest cost (on the defined liability)	25.957
-3.824	Interest receivable and similar income	-4.378
38.420		**42.247**

Note 13: Taxation and Non-Specific Grant Income

2012/13 £millions		2013/14 £millions
-204.883	Council Tax income	-188.309
-118.084	National Non-Domestic Rates	-59.133
-35.107	Non-ringfenced government grants	-108.555
-42.480	Capital grants and contributions	-34.549
-400.554		**-390.546**

Note 14: Trading Operations

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

2012/13 Total Expenditure £millions	2012/13 Turnover (Income) £millions	2012/13 Surplus (-) or deficit £millions	Trading unit	2013/14 Total Expenditure £millions	2013/14 Turnover (Income) £millions	2013/14 Surplus (-) or deficit £millions
0.314	-0.294	0.020	Charterhouse	0.335	-0.340	-0.005
1.427	-1.417	0.010	Dillington House	1.600	-1.647	-0.047
1.896	-1.780	0.116	Kilve	1.753	-1.783	-0.030
3.806	-4.030	-0.224	Legal Services #	-	-	-
0.415	-0.425	-0.010	Resources 4 Learning	0.371	-0.405	-0.034
6.558	-7.038	-0.480	Somerset Skills and Learning	6.850	-6.628	0.222
0.768	-0.881	-0.113	Somerset Music	0.616	-0.635	-0.019
15.184	**-15.865**	**-0.681**	**Surplus (-) or deficit on trading activities**	**11.525**	**-11.438**	**0.087**

Legal Services is no longer classified as a trading operation. The costs of our Legal Services team are now included within the overall deficit on continuing operations with other service related income and expenditure.

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

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

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.

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

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

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

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

Note 15: Pooled Budgets

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

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

2012/13 £millions	Integrated Community Equipment Service (previously known as the Joint Equipment Service)	2013/14 £millions
	Income from:	
-1.200	Adults and Health Service	-1.083
-0.206	Children and Learning Service	-0.348
-1.244	Somerset Clinical Commissioning Group (Including Continuing Healthcare Income)	-1.475
-0.001	Other Income	-0.690
-0.095	Other Grant Income	-
-2.746	Total income	-3.596
	Less the following spending:	
3.034	Equipment, delivery costs, minor work	3.462
0.073	Management and administration	0.084
3.107	Total spending	3.546
0.361	**Overspending or underspending (-)**	**-0.050**

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:

2012/13 £millions	Substance Misuse (previously known as the Adult Drug Treatment Service budget)		2013/14 £millions
	Income from:		
-0.881	Adults and Health Service		-0.873
-	Childrens EIG Funding		-0.150
-4.051	Somerset Clinical Commissioning Group (including National Treatment Agency)	#	-
-0.036	Avon and Somerset Probation Service		-0.036
-0.058	Avon and Somerset Constabulary		-0.058
-	Public Health Grant	#	-4.210
-0.270	Criminal Justice Intervention Programme		-0.259
-	Other grants		-
-	Previous year's funding brought forward		-0.334
-5.296	Total income		-5.920
	Less the following spending:		
3.951	Turning Point / New Services (Including Community Access Programming and YP)		4.499
0.247	Pharmacy related spending		0.218
0.088	Probation		0.073
0.644	Other spending		0.841
4.930	Total spending		5.631
-0.366	**Overspending or underspending (-)**		**-0.289**

Funding for 2013/14 is no longer provided by the Somerset Clinical Commissioning Group and is now provided direct to the authority as a result of the transfer of Public Health responsibilities.

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

2012/13 £millions	Learning Disabilities Service	2013/14 £millions
	Income from:	
-41.069	Adults and Health Service	-41.701
-0.392	Pensions Equalisation Reserve	-0.483
-15.924	Somerset Clinical Commissioning Group	-16.118
-5.511	Income from charges and grant income	-5.782
-62.896	Total income	-64.084
	Less the following spending:	
29.207	Purchasing (independent sector)	32.396
9.581	Residential services	9.934
15.625	Supported housing	15.637
5.736	Day services	6.214
2.982	Community teams	3.602
63.131	Total spending	67.783
0.235	**Overspending or underspending (-)**	**3.699**

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

2012/13 £millions	Carers (New for 2013/14)	2013/14 £millions
	Income from:	
-	Adults and Health Service	-0.204
-	Somerset Clinical Commissioning Group	-0.203
-	Earmarked Reserve Drawdown	-0.122
-	Total income	-0.529
	Less the following spending:	
-	Universal Carers Support Service	0.404
-	CAMHS Assessment Workers	0.062
-	Total spending	0.466
-	**Overspending or underspending (-)**	**-0.063**

Note 16: Members' Allowances

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

2012/13 £millions		2013/14 £millions
0.573	Basic Allowance	0.569
0.172	Special Responsibility Allowance	0.201
0.049	Travel and Subsistence Expenses	0.060
0.013	Payments to Co-optees	0.013
0.807		**0.843**

Note 17: Senior Officers' Remuneration

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

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

Table 1 – Staff paid more than £50,000 (shown in £5,000 bands) for the financial year ended 31 March 2014

2012/13 Number of employees			2013/14 Number of employees	
Schools	Non-schools	Employee pay bands	Schools	Non-schools
68	23	£50,000 to £54,999	75	23
45	16	£55,000 to £59,999	37	29
28	16	£60,000 to £64,999	27	12
7	2	£65,000 to £69,999	10	7
2	1	£70,000 to £74,999	3	5
1	2	£75,000 to £79,999	4	1
3	4	£80,000 to £84,999	3	1
4	6	£85,000 to £89,999	2	6
-	2	£90,000 to £94,999	-	1
-	-	£95,000 to £99,999	-	2
-	1	£100,000 to £104,999	-	3
-	-	£105,000 to £109,999	-	-
-	-	£110,000 to £114,999	-	-
-	-	£115,000 to £119,999	1	-
-	1	£120,000 to £124,999	-	-
-	-	£125,000 to £129,999	-	-
-	-	£130,000 to £134,999	-	1
-	-	£135,000 to £139,999	-	-
-	-	£140,000 to £144,999	-	-
-	-	£145,000 to £149,999	-	-
-	-	£150,000 to £154,999	-	-
-	-	£155,000 to £159,999	-	-
-	1	£160,000 to £164,999	-	-
-	-	£165,000 to £169,999	-	-
-	-	£170,000 to £174,999	-	-
-	-	£175,000 to £179,999	-	-
-	-	£180,000 to £184,999	-	1

The following tables set out the salaries and wages our senior officers earned during 2012/13 and 2013/14. 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 2013

Post holder information (Post title and name)	Salary (including fees and allowances) £	Compensation for loss of office £	Benefits in kind £	Total wages and benefits but not including pension contributions 2012/13 £	Employer's pension contributions £	Total wages and benefits including pension contributions 2012/13 £
Chief Executive						
Sheila Wheeler	160,000	-	-	160,000	21,600	181,600
Executive Leadership Team - reporting to CEO						
- Group Director of Operations	120,000	-	-	120,000	16,200	136,200
- Finance and Performance Director	100,000	-	-	100,000	13,500	113,500
- Lead Commissioner Adults & Health	93,800	-	-	93,800	13,200	107,000
- Lead Commissioner Children & Learning	93,700	-	-	93,700	12,700	106,400
- Lead Commissioner Economic & Community Infra	85,000	-	-	85,000	11,500	96,500
- Business Development Director	61,600	-	-	61,600	8,300	69,900
Note 1						
- Customers & Communities Director	52,400	-	-	52,400	5,900	58,300
Note 2						
- Commissioning & Procurement Director	-	-	-	-	-	-
Note 3						
Senior Leadership Team - reporting to ELT						
- Economic & Community Infrastructure Operations Director	149,500	-	-	149,500	-	149,500
Note 4						
- Children & Families Operations Director	86,000	-	-	86,000	11,600	97,600
- Learning & Achievement Operations Director	86,000	-	-	86,000	11,600	97,600
- Learning Disabilities Operations Director	85,000	-	-	85,000	11,500	96,500
- HR & OD	84,700	-	-	84,700	11,500	96,200
- Adults & Health Operations Director	80,100	-	-	80,100	10,800	90,900
County Solicitor	52,600	-	-	52,600	7,800	60,400
Group Manager Community Governance / Monitoring Officer	51,300	-	-	51,300	6,900	58,200

Note 1 - The Business Development Director was appointed during August 2013. The annualised salary for this post would have been £100,000.
Note 2 - The Customers & Communities Director left in February 2013. The annualised salary for this post would have been £85,000
Note 3 - The post of Commissioning & Procurement Director was left vacant during 2012/13.
Note 4 - During 2012/13 the post of Economic & Community Infrastructure Operations Director was filled via an agency service. The charge to the authority for the year totalled £149,539

Table 3 – Actual salary and benefits paid for the financial year ended 31 March 2014

Post holder information (Post title and name)	Salary (including fees and allowances) £	Compensation for loss of office £	Benefits in kind £	Total wages and benefits but not including pension contributions 2013/14 £	Employer's pension contributions £	Total wages and benefits including pension contributions 2013/14 £
Chief Executive						
Sheila Wheeler	140,000	40,000	-	180,000	18,900	198,900
Note 1						
Executive Leadership Team - reporting to CEO						
- Group Director of Operations	133,300	-	-	133,300	18,000	151,300
Note 2						
- Public Health Director	101,200	-	200	101,400	14,100	115,500
Note 3						
- Finance and Performance Director	100,000	-	-	100,000	13,500	113,500
- Business Development Director	100,000	-	-	100,000	13,500	113,500
- Lead Commissioner Adults & Health	98,200	-	-	98,200	13,300	111,500
- Lead Commissioner Children & Learning	318,500	-	-	318,500		318,500
Note 4						
- Lead Commissioner Economic & Community Infra	85,000	-	-	85,000	11,500	96,500
- Customers & Communities Director		-	-	-		-
Note 5						
- Commissioning & Procurement Director		-	-	-		-
Note 6						
Senior Leadership Team - reporting to ELT						
- Economic & Community Infrastructure Operations Director	129,600	-	-	129,600	5,600	135,200
Note 7						
- Deputy Director of Children's Services	275,000	-	-	275,000		275,000
Note 8						
- Interim Operations Director Children and Families	148,400	-	-	148,400		148,400
Note 9						
- Learning & Achievement Operations Director	86,000	-	-	86,000	11,600	97,600
- Learning Disabilities Operations Director	85,000	-	-	85,000	11,500	96,500
- HR & OD	85,000	-	-	85,000	11,500	96,500
- Adults & Health Operations Director	85,000	-	-	85,000	11,500	96,500
County Solicitor	59,800	-	-	59,800	8,100	67,900
Group Manager Community Governance / Monitoring Officer	56,600	-	-	56,600	7,600	64,200

Note 1 – The Chief Executive Officer left during 2013-14, the annualised salary for this post would have been £160,000
Note 2 – Covered as deputy CEO.
Note 3 – Public Health now forms part of the County Councils responsibilities.
Note 4 - During 2013/14 the post of Lead Commissioner for Children & Learning was filled via an agency service. The charge to the authority for the year totalled £318,500
Note 5 - The post of Customers & Communities Director was left vacant during 2013/14.
Note 6 – The post of Commissioning & Procurement Director was left vacant during 2013/14.

Note 7 – During 2013/14 the post of Economic & Community Infrastructure Operations Director was filled via an agency service up to November 2013. The charge to the authority totalled £88,000. This post was permanently filled for the remaining part of the year.
Note 8 – During 2013/14 the post of Deputy Director of Children's Services was filled via an agency service. The charge to the authority for the year totalled £275,000
Note 9 – During 2013/14 the post of Interim Operations Director Children and Families was filled via an agency service. The charge to the authority for the year totalled £148,400.

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

Exit package cost band (inc. special payments)	Number of redundancies - compulsory & voluntary		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each cost band	
	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13 £millions	2013/14 £millions
£0 - £20,000	82	65	33	33	115	98	0.592	0.722
£20,001 - £40,000	8	11	9	3	17	14	0.466	0.334
£40,001 - £60,000	2	1	2	6	4	7	0.188	0.331
£60,001 - £80,000	-	-	-	4	-	4	-	0.281

Note 18: Termination Benefits

Somerset County Council terminated the contracts of 123 employees in 2013/14, incurring liabilities of £1.668 million.

Local Authority
The redundancy total includes; £0.488 million payable to 23 staff who took voluntary redundancy or early retirement as part of the Authority's rationalisation of its structure, 14 early years support officers and teachers and 10 support workers in children's centres at a cost of £0.321 million, the remaining amount was payable to a number of other employees across the Authority.

Teachers
Included in the above statement of £1.668 million, the Authority terminated the contracts of 51 teachers in 2013/14, incurring liabilities of £0.653 million. This can be analysed across the following:

- Primary 20 teachers
- Secondary 18 teachers
- Special 4 teachers
- Virtual/ Non-school specific 9 teachers

Note 19: External Audit Costs

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

2012/13 £millions		2013/14 £millions
	Audit fees	
0.137	– Main audit (including the Somerset Waste Partnership)	0.148
0.006	– Grant claims	0.005
0.003	– Other audit costs	0.005
0.146	**In year audit costs**	**0.158**
-	Rebate from Audit commission for previous overcharge on audit fee	-0.022
0.146		**0.136**

Note 20: Dedicated Schools Grant

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

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

Details of the deployment of DSG receivable for 2013/14 are shown in the following table:

	Central spending £millions	Individual Schools Budget £millions	Total £millions
Final Dedicated Schools Grant for 2013/14 - before Academy Recoupment	-49.664	-280.160	-329.824
Less: Academy figure recouped for 2013/14	-1.025	110.583	109.558
Less: NMSS places recouped for 2013/14	0.488	-	0.488
Less: Central copyright licensing	0.138	-	0.138
Recoupment for 2013/14	**-50.062**	**-169.578**	**-219.640**
Plus: Brought Forward from 2012/13	-3.324	-	-3.324
Less: Carry Forward to 2014/15 agreed in advance	0.391	-	0.391
Agreed initial budgeted distribution in 2013/14	**-52.995**	**-169.578**	**-222.573**
In year adjustments	-	-	-
Final budgeted distribution for 2013/14	**-52.995**	**-169.578**	**-222.573**
Less: Actual ISB deployed to schools	-	169.578	169.578
Plus: Local Authority contribution for 2012/13	-	-	-
Carry-forward to 2014/15	**-1.881**	**-**	**-1.881**

Note 21: Grant Income

The Authority credited the following grants, capital contributions and capital donations to the Comprehensive Income and Expenditure Statement in 2013/14:

2012/13 £millions		2013/14 £millions
	Credited to Taxation and Non Specific Grant Income	
-2.387	- Revenue Support Grant	-89.689
-10.142	- Council Tax Freeze Grant	-2.042
-0.027	- Council Tax Reform Grant	-
-19.527	- Early Intervention Grant	-
-0.461	- Lead Local Flood Authority Grant	-0.273
-0.119	- LD & Health Reform Grant	-
-0.134	- Inshore Fisheries Grant	-0.134
-1.266	- New Homes Bonus	-2.578
-0.250	- Safer Communities Grant	-
-0.580	- Rights to Free Travel	-0.527
-0.205	- Building Schools for the Future	-4.297
-0.009	- Community Rights to Challenge	-0.481
-	- Adoption Reform Grant	-1.128
-	- Education Services Grant - Serv for LA	-4.611
-	- Education Services Grant - Universal Ser	-1.014
-	- Effic Supt for Serv in Sparse Area Gnt	-0.235
-	- Local Reform and Community Voices Gnt	-0.441
-	- Social Fund	-1.105
-11.843	- Standards Fund Capital Grant	-7.339
-25.800	- Department for Transport Capital Grant	-27.675
-4.837	- Other capital grants / Contributions	0.465
-77.587	**Total**	**-143.104**
	Credited to Services	
-228.460	- Dedicated Schools Grant	-219.640
-8.126	- Standards Fund	-8.835
-0.449	- Devolved Formula Capital Grant	-0.192
-	- Adoption Reform Grants	-0.693
-6.011	- Pupil Premium Grant	-7.955
-0.768	- Music Education Grant	-0.614
-0.200	- Intensive Evidence Based programme Grant	-
-	- LEP - Start Up Fund	-0.531
-	- Somerset Recovery Scheme	-0.500
-1.734	- 16-19 Funding	-0.817
-3.123	- Sixth Form Funding (S6F)	-3.308
	- Primary PE and Sports Grant	-1.039
-5.483	- Skills Funding Agency (formerly Learning and Skills Council)	-5.016
-0.741	- Youth Justice	-0.620
-0.823	- Troubled Families	-1.535
-1.523	- Children and Young People services – other grants	-2.680
-2.188	- Social Care Reform Grant	-0.534
-	- Public Health grant	-14.103
-0.760	- DEFRA - AONB & LARC	-0.710
-0.369	- European Agricultural Fund for Rural Development - LARC	-0.343
-1.522	- Department for Transport Winter Funding 2011/12	-
-	- Somerset Levels 20 year plan	-10.000
-	- Severe weather recovery scheme	-7.809
	- Grant from Broadband Delivery UK	-3.763
-2.124	- Economic, Communities & Infrstructure services - other grants	-2.423
-0.643	- Adult services – other grants	-0.201
-6.016	- Building Schools for the Future contributions	-2.213
-0.317	- Other services grants	-0.189
-271.380	**Total**	**-296.263**

Note 22: Related Parties

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

Central Government

Central government has the ability to control or exercise significant influence over the general operations of the Council. It is responsible for providing the statutory framework, within which the Council operates, it provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties. The grants received from Central Government are disclosed in Note 21.

Officers

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

Members

Elected Members of the Council have direct control over the Council's financial and operating policies. The total of Members' allowances paid in 2013/14 is shown in Note 16. The Members' Code of Conduct requires Members to declare interests in related parties in the Register of Members' Interests. The Register is available on the Council's website and is open to public inspection at County Hall during office hours. Members were also asked to declare separately transactions with the Authority. No material transactions between the Council and businesses in which members have a controlling interest have been identified.

A number of Members are also members of other local public bodies, including district, parish and town councils, academies and NHS trusts. During 2013/14 a variety of transactions took place between the Council and these organisations that are deemed not to be material.

Other Related Parties

The PLUSS Organisation, a company limited by guarantee, is an associate of the County Council, in which the Council has a 25% share of voting rights. In 2013/14 the Council paid £0.249 million to PLUSS.

Southwest One provides a number of services to the Authority through a contract. These services include elements of finance, facilities management, property services, payroll and technology services. In 2013/14 expenditure on services from Southwest One, including contract payments, was £30.185 million and income received from Southwest One, including payments for salaries of staff seconded from the Council to Southwest One, was £12.401 million. At 31/03/2014 we had a Southwest One debtor of £0.023 million and a Southwest One creditor of £0.128 million reported within our accounts.

The Authority has significant influence over various small local companies (31 in total) that provide transport on behalf of the Authority, due to the considerable proportion of business provided to them by the Authority. The total paid to these companies during 2013/14 was £2.258 million.

Futures for Somerset, a long term strategic partnership, is an associate of the County Council, in which the Council has a 17% share of voting rights and influence over it's long term plans. In 2013/14 the Council paid £0.746 million to Futures for Somerset.

Note 23: Property, Plant and Equipment

Movements in 2013/14	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total	PFI assets included in PPE
	£millions	£millions	£millions	£millions	£millions	£millions	£millions	£millions
Cost or valuation								
At 1 April 2013	627.701	58.954	473.218	0.822	4.196	11.807	1,176.698	-
Additions	8.216	2.905	23.552	-	-	11.729	46.402	-
Disposals	-80.231	-1.392	-	-	-	-	-81.623	-
Reclassifications	1.384	1.187	-	-	-1.970	-10.215	-9.614	-
Revaluation Increase/decrease (-):								
- to Revaluation Reserve *	84.114	-	-	-	2.145	-	86.259	-
- to Surplus/Deficit on the provision of service	-9.148	-	-	-	-	-	-9.148	-
At 31 March 2014	632.036	61.654	496.770	0.822	4.371	13.321	1,208.974	-
Depreciation and impairments								
At 1 April 2013	-34.867	-32.287	-187.573	-0.740	0.040	-0.178	-255.605	-
Charge for 2013/14	-12.015	-8.291	-19.543	-0.030	-0.094	-	-39.973	-
Disposals	7.771	0.725	-	-	-	-	8.496	-
Reclassifications	0.322	0.200	-	-	-0.050	-	0.472	-
Revaluations *	51.161	-	-	-	0.087	-	51.248	-
Impairment Losses (-)/reversals:								
- to Revaluation Reserve	-0.271	-	-	-	-	-	-0.271	-
- to Surplus/Deficit on the provision of service	-0.989	-0.317	-	-	-	-	-1.306	-
At 31 March 2014	11.112	-39.970	-207.116	-0.770	-0.017	-0.178	-236.939	-
Balance sheet amount at 1 April 2013	**592.834**	**26.667**	**285.645**	**0.082**	**4.236**	**11.629**	**921.093**	**-**
Balance sheet amount at 31 March 2014	**643.148**	**21.684**	**289.654**	**0.052**	**4.354**	**13.143**	**972.035**	**-**
Nature of asset holding at 31 March 2014								
Owned	496.373	20.527	289.654	0.052	4.354	13.143	824.103	-
Finance lease	146.775	1.157	-	-	-	-	147.932	-
	643.148	**21.684**	**289.654**	**0.052**	**4.354**	**13.143**	**972.035**	**-**

Movements in 2012/13	Other Land & Buildings (restated) £millions	Vehicles, Plant & Equipment £millions	Infrastructure Assets £millions	Community Assets £millions	Surplus Assets £millions	Assets Under Construction £millions	Total £millions	PFI assets included in PPE £millions
Cost or valuation								
At 1 April 2012	633.772	63.108	450.333	1.033	4.368	7.107	1,159.721	-
Additions	54.525	3.213	25.443	-	-	13.756	96.937	44.664
Disposals	-66.418	-8.417	-	-	-0.014	-	-74.849	- 44.664
Reclassifications	9.745	1.050	-2.558	-0.211	-0.128	-9.056	-1.158	-
Revaluation Increase/decrease (-):								
- to Revaluation Reserve	1.952	-	-	-	0.046	-	1.998	-
- to Surplus/Deficit on the provision of service	-5.875	-	-	-	-0.076	-	-5.951	-
At 31 March 2013	627.701	58.954	473.218	0.822	4.196	11.807	1,176.698	-
Depreciation and impairments								
At 1 April 2012	-67.855	-29.403	-169.176	-0.731	-0.137	-0.035	-267.337	-
Charge for 2012/13	-13.861	-9.179	-18.626	-0.045	-0.101	-	-41.812	-
Disposals	3.473	6.632	-	-	-	-	10.105	-
Reclassifications	-0.244	-	0.229	0.036	0.096	-0.143	-0.026	-
Revaluations	45.384	-	-	-	0.182	-	45.566	-
Impairment Losses/reversals (-):								
- to Revaluation Reserve	-0.541	-	-	-	-	-	-0.541	-
- to Surplus/Deficit on the provision of service	-1.223	-0.337	-	-	-	-	-1.560	-
At 31 March 2013	-34.867	-32.287	-187.573	-0.740	0.040	-0.178	-255.605	-
Balance sheet amount at 1 April 2012	**565.917**	**33.705**	**281.157**	**0.302**	**4.231**	**7.072**	**892.384**	**-**
Balance sheet amount at 31 March 2013	**592.834**	**26.667**	**285.645**	**0.082**	**4.236**	**11.629**	**921.093**	**-**
Nature of asset holding at 31 March 2013								
Owned	520.450	25.269	285.645	0.082	4.236	11.629	847.311	-
Finance lease	72.384	1.398	-	-	-	-	73.782	-
	592.834	**26.667**	**285.645**	**0.082**	**4.236**	**11.629**	**921.093**	**-**

Depreciation

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

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

Capital Commitments

At 31 March 2014, the Authority anticipated investing £113.6m (£74.9m at 31 March 2013) in the construction or enhancement of Property, Plant, Equipment and Infrastructure during 2014/15 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:

- £28.557m for the Superfast Broadband Programme
- £7.791m for the remainder of the Taunton Northern Inner Distributor Road
- £1.708m for Major rebuild at Bridgwater Penrose Special School
- £1.014m for Major refurbishment works at Burnham on Sea King Alfred's School
- £0.738m for classroom block extension at North Petherton Primary School
- £1.520m Contracts in relation to SMART Office

Similar commitments listed at 31 March 2013 were £42.314m.

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

1. An on-going contract for the procurement of the highways major repairs that will result in an estimated capital expenditure of between £21 million and £25 million in 2014/15 (£18-£20 million in 2013/14). These payments will relate to new projects in 2014/15 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.

Revaluations

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

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

	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	PPE Under Construction	Total
	£millions	£millions	£millions	£millions	£millions	£millions	£millions
Carried at historical cost	-	21.684	289.654	0.052	-	13.143	**324.533**
Valued at fair value as at:							
31 March 2014	511.112	-	-	-	1.588	-	**512.700**
31 March 2013	25.339	-	-	-	0.797	-	**26.136**
31 March 2012	9.229	-	-	-	-	-	**9.229**
31 March 2011	23.170	-	-	-	0.172	-	**23.342**
31 March 2010	74.298	-	-	-	1.797	-	**76.095**
Total cost or valuation	**643.148**	**21.684**	**289.654**	**0.052**	**4.354**	**13.143**	**972.035**

Note 24: Intangible Non Current Assets

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

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

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation charge of £0.329 million for 2013/14 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 £0.258 million was charged to Community Services for the AIS system (Social Care) and the Heritage website (Heritage Services).

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

2011/12 £millions	2012/13 £millions		2013/14 £millions
		Balance at start of year:	
1.780	2.853	– Gross carrying amount	2.807
-0.214	-0.581	– Accumulated amortisation	-0.890
1.566	**2.272**	**Net carrying amount at start of year**	**1.917**
		Additions:	
0.122	0.004	– Purchases	0.026
-0.305	-0.325	Amortisation for the period	-0.329
		Other changes	
0.889	-0.034	– Transferred from assets under construction	0.169
2.272	**1.917**	**Net carrying amount at end of year**	**1.783**

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

	Carrying amount at 31 March 2012 £millions	Carrying amount at 31 March 2013 £millions	Carrying amount at 31 March 2014 £millions	Remaining Amortisation Period at 31 March 2014
SAP system licences (Integrated finance and payroll system)	1.495	1.424	1.353	19 years
AIS System (replacement of SWIFT)	0.734	0.492	0.246	1 year

Note 25: Impairment Losses

During 2013/14, the Authority has recognised an impairment loss of £1.577 million to its property, plant and equipment non-current assets. There was no significant loss to any single asset.

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

These disclosures are consolidated in Note 23 that reconciles the movements over the year in the property, plant and equipment balances.

Note 26: Assets Held For Sale

The majority of our assets held for sale during 2013/14 were county farms, the industrial units at Taunton Apple Business Centre, The Northgate Complex in Bridgwater and surplus land around Christchurch VC School. This is all reflected in the table shown below:

Current 2011/12 £millions	Current 2012/13 £millions		Current 2013/14 £millions
7.880	**3.697**	**Balance outstanding at start of year**	**1.327**
		Assets newly classified as held for sale:	
1.821	1.390	Property, plant and equipment	8.972
0.615	0.165	Spend on assets held for sale	-
-	-	Revaluation losses	-
-0.036	-0.666	Impairment losses	-2.845
		Assets declassified as held for sale:	
-2.728	-0.172	Property, plant and equipment	-
-3.855	-3.087	Assets sold	-0.986
3.697	**1.327**	**Balance outstanding at year end**	**6.468**

Note 27: Leases

Authority as Lessee

Finance Leases
The Council has acquired a number of libraries, the Museum of Somerset, Dillington House (our residential centre for professional development, adult education and the arts), and a number of waste recycling vehicles under finance lease arrangements. We also report a number of Voluntary Controlled (VC) 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 2012 £millions	31 March 2013 £millions	31 March 2014 £millions
Other Land and Buildings	60.790	72.384	146.775
Vehicles, Plant and Equipment	1.639	1.398	1.157
	62.429	**73.782**	**147.932**

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 2013/14 (below) are the finance lease liability and finance costs for the BSF Bridgwater PFI scheme. Although the schools have been de-recognised from our accounts (due to control lying with the Bridgwater Education Trust) the lease rental payments are still payable and are therefore included within the total minimum lease payments. See note 28 for further details.

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

2012/13 £millions		**2013/14 £millions**
	Finance lease liabilities (net present value of minimum lease payments):	
0.883	- Current	0.759
45.555	- Non Current	46.539
71.911	Finance costs payable in future years	72.182
118.349	Minimum lease payments	**119.480**

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

	Minimum Lease Payments		**Finance Lease Liabilities**	
	31 March 2013 £millions	**31 March 2014 £millions**	**31 March 2013 £millions**	**31 March 2014 £millions**
Not later than one year	5.065	5.205	0.883	0.759
Later than one year and not later than five years	20.989	20.795	4.286	3.654
Later than five years	98.493	93.480	41.269	42.885
	124.547	**119.480**	**46.438**	**47.298**

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 2013/14, £0.012m contingent rents were received by the Authority (£0.006m in 2012/13).

The Authority has sub-let part of Taunton library (held under a finance lease) as an operating lease. At 31 March 2013, the minimum lease payments expected to be received under non-cancellable sub-leases was £0.182m (£0.197m at 31 March 2013).

Operating Leases

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

Operating Leases	31 March 2013 Land & Buildings £millions	31 March 2013 Vehicles & Equipment £millions	31 March 2014 Land & Buildings £millions	31 March 2014 Vehicles & Equipment £millions
Not later than one year	0.781	0.024	0.965	0.085
Later than one year and not later than five years	2.699	-	3.108	0.076
Later than five years	2.655	-	4.462	-
	6.135	**0.024**	**8.535**	**0.161**

The Authority has sub-let some of the assets acquired under operating leases. At 31 March 2014, the minimum lease payments expected to be received under non-cancellable sub-leases were £0.121m (£0.118m at 31 March 2013).

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

	31 March 2013 £millions	31 March 2014 £millions
Minimum Lease Payments	0.064	0.064
Less - Sub-lease payments receivable	-0.007	-0.012
	0.057	**0.052**

Authority as Lessor

Finance Leases

The Authority has leased out a number of its elderly care home properties to Somerset Care Ltd on a finance lease with a remaining term of 86 years. The Authority has also leased out (for a peppercorn rent) a section of Shire Hall to the Secretary of State for the Environment on a finance lease with a remaining term of 102 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 2013 £millions	31 March 2014 £millions
Finance lease debtor (net present value of minimum lease payments):		
- Current	0.028	0.028
- Non Current	22.050	20.310
Unearned Finance Income	69.947	71.329
Gross investment in the lease	**92.025**	**91.667**

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 2013 £millions	31 March 2014 £millions	31 March 2013 £millions	31 March 2014 £millions
Not later than one year	1.065	1.073	1.065	1.073
Later than one year and not later than five years	4.259	4.292	4.259	4.292
Later than five years	86.701	86.302	86.701	86.302
	92.025	**91.667**	**92.025**	**91.667**

During 2013/14, 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 2013/14. This will be reviewed again in 2014/15, 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 2013/14, £0.090m contingent rents were receivable by the Authority (£nil for 2012/13).

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 2013 £millions**	**31 March 2014 £millions**
Not later than one year	0.326	0.258
Later than one year and not later than five years	0.461	0.563
Later than five years	0.928	0.827
	1.715	**1.648**

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

Building Schools for the Future (BSF)

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

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

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

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

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

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

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

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

	Repayments of Liability £m	Interest Charges £m	Service Charges £m	LifeCycle Replacement £m	Total Payments £m
Within 1 year	0.515	4.430	1.696	0.380	**7.021**
Within 2 - 5 years	2.869	17.178	6.517	1.521	**28.085**
Within 6 - 10 years	5.504	19.611	8.089	1.901	**35.105**
Within 11 - 15 years	8.705	16.410	8.089	1.901	**35.105**
Within 16 - 20 years	13.768	11.347	8.089	1.901	**35.105**
Within 21 - 25 years	14.516	3.490	5.791	1.363	**25.160**
	45.877	**72.466**	**38.271**	**8.967**	**165.581**

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

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

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

	2012/13 (Restated) £millions	2013/14 £millions
Balance outstanding at start of year	3.362	44.628
Payments made during the year	-3.398	-0.494
Capital expenditure incurred in the year	44.664	1.743
Balance outstanding at year-end	**44.628**	**45.877**

The total estimated indexed payments under the contract amount to £200.500 million. These payments are scheduled to be funded from the following revenue streams:

	Proportion of Costs
Central Govt.Grant (PFI Credits	85.2%
Delegated School Budgets	14.5%
SCC Contribution	0.3%
	100%

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

	2009/10 £millions	2010/11 £millions	2011/12 £millions	2012/13 £millions	2013/14 £millions
Carrying Value - as at 1 April					
Numismatic collections	0.306	0.306	0.664	0.781	0.781
Art Collections	-	-	-	0.004	0.004
Archaeology	-	-	-	-	0.016
Archives	0.380	0.380	0.380	0.380	0.380
Metalwork collections	0.130	0.130	0.130	0.130	0.130
	0.816	**0.816**	**1.174**	**1.295**	**1.311**
Cost of acquisitions of heritage assets					
Numismatic collections	-	0.358	0.117	-	0.009
Art Collections	-	-	0.004	-	0.003
Archaeology	-	-	-	0.016	-
Archives	-	-	-	-	-
Metalwork collections	-	-	-	-	-
Total cost of purchases	**-**	**0.358**	**0.121**	**0.016**	**0.012**
Reclassifcation to/from heritage asset					
Numismatic collections	-	-	-	-	-
Art Collections	-	-	-	-	0.001
Archaeology	-	-	-	-	-
Archives	-	-	-	-	-
Metalwork collections	-	-	-	-	-
Total reclassifications	**-**	**-**	**0.000**	-	**0.001**
Carrying Value - as at 31 March					
Numismatic collections	0.306	0.664	0.781	0.781	0.790
Art Collections	-	-	0.004	0.004	0.008
Archaeology	-	-	-	0.016	0.016
Archives	0.380	0.380	0.380	0.380	0.380
Metalwork collections	0.130	0.130	0.130	0.130	0.130
Total Carrying Value - as at 31 March	**0.816**	**1.174**	**1.295**	**1.311**	**1.324**

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

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

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

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

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

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

The whole of the collection is publicly accessible:

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

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

Heritage Assets of Particular Importance

Geology

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

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

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

Biology

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

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

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

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

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

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

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

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

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

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

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

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

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

<u>Metalwork</u>
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.

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

<u>Numismatics</u>
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.

<u>Archives</u>

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

Preservation and Management

Details of our preservation and management policy can be found in the Heritage Services' *Museum Acquisition and Disposal Policy 2011 to 2016* which has been produced in accordance with national guidelines and is available on our website.
http://www.somerset.gov.uk/information-and-statistics/financial-information/budgets-and-accounts/

Note 31: Financial Instruments

Fair Values of Assets and Liabilities

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

- Prevailing swap rates for Lender Option Borrower Options (LOBOs) and Public Work Loans Board (PWLB) repayment rate at 31 March 2014;
- The fair value of our PFI / lease deferred liability has been calculated using zero coupon rates derived from the Bloomberg composite AA corporate bond yield as indicative interest rates;
- No early repayment or impairment is recognised;
- Where an instrument will mature in the next 12 months, the carrying amount is assumed to approximate to fair value; and
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

Financial Liabilities	31 March 2013 Carrying amount (Restated) £millions	31 March 2013 Fair Value (Restated) £millions	31 March 2014 Carrying amount £millions	31 March 2014 Fair Value £millions
Financial liabilities at amortised cost	-717.839	-717.839	-670.622	-670.622
PWLB	-169.602	-219.061	-169.601	-203.211
PFI deferred Liability at discounted rate	-44.628	-76.950	-45.877	-76.061
Other Loans	-173.255	-227.954	-173.193	-198.484
	-1,105.324	**-1,241.804**	**-1,059.293**	**-1,148.378**

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 2014) arising from a commitment to pay interest to lenders above current market rates.

Financial Assets	31 March 2013		31 March 2014	
	Carrying amount (Restated)	Fair Value (Restated)	Carrying amount	Fair Value
	£millions	£millions	£millions	£millions
Cash and liquid deposits	34.886	34.886	134.826	134.826
Loans and receivables	261.525	261.525	193.527	193.527
Long-term investments	5.879	5.879	20.693	20.693
	302.290	**302.290**	**349.046**	**349.046**

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

We have no financial assets available for sale.

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

Short-term and long-term investments

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

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

2011/12 £millions	2012/13 £millions		2013/14 £millions
		Investments through the Comfund for:	
4.350	3.750	– South West Councils	3.500
3.500	3.500	– Exmoor National Park	3.200
0.365	0.365	– Police Community Trust	0.365
0.290	0.270	– Society of County Treasurers	0.255
0.175	0.325	– Falcon Housing Trust	0.050
0.800	0.300	– Richard Huish College	0.700
0.005	-	– Police Authority Treasurers' Society	-
0.125	0.125	– Learning South West	0.125
0.040	0.040	– Wyvern Club	0.040
0.100	0.375	– King Alfred School	0.375
9.750	9.050		8.610
57.250	185.041	Our own short-term investment in the Comfund	113.653
67.000	194.091	Total temporary Comfund investment	122.263
3.840	1.151	Other temporary investments	1.191
0.672	0.657	Interest due on temporary investments	0.621
71.512	**195.899**	**Total short-term investments**	**124.075**
5.593	4.787	Our own long-term investment in the Comfund	20.692
0.001	0.001	Investment in South West One	0.001
5.594	**4.788**	**Total long-term investments**	**20.693**

Long-term debtors

2011/12 £millions	2012/13 £millions		2013/14 £millions
		Loans to:	
-	-	Central Government (Academy loans)	0.600
0.523	0.487	Other authorities (mostly for housing)	0.168
0.090	5.601	Other organisations/individuals	5.136
0.111	0.037	Capital spending for probation to be funded in future years	0.032
0.830	-	Loan to ASPA	-
0.142	0.104	Officers' car loans and leases	0.071
22.076	22.050	Leasing arrangements with Somerset Care Ltd	20.311
23.772	**28.279**		**26.318**

Short-term borrowing

2011/12 £millions	2012/13 £millions		2013/14 £millions
-9.750	-9.050	Other organisations investing in the Comfund	-8.610
-0.064	-0.032	Interest payable on temporary borrowing	-0.032
-9.814	**-9.082**		**-8.642**

Long-term borrowing

2011/12 £millions	2012/13 £millions		2013/14 £millions
		Loans due to be repaid:	
-15.000	-	within one year	-9.200
-	-9.200	between one and two years	-
-9.200	-	between two and five years	-
-	-	between five and 10 years	-5.000
-329.550	-329.550	after more than 10 years	-324.550
-4.259	-4.107	Interest due on long-term borrowing	-4.044
-358.009	**-342.857**		**-342.794**

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

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

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

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

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

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

Credit and Counterparty Risk

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

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

The Somerset County Council Lending Counterparty Criteria is proposed and approved annually to incorporate any changes in financial institutions or developments in the wider political, economic, or legal environment. The criteria in force during 2013/14 can be found under the reports for the County Council meeting 06 February 2013, agenda item 8, Paper D. The Treasury Management Practices are also available at Appendix D. These can be accessed via the hyperlinks below.

http://www1.somerset.gov.uk/council/board3c/2013%20February%206%20Item%208%20Treasury%20Management%20Strategy%202013-14.pdf

http://www1.somerset.gov.uk/council/meetings/reports.asp?item=977

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

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

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

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

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

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

Risk rating provider	Risk rating	Amount outstanding £millions	Potential at risk £millions
Fitch	**Money-market funds**		
	AAA	53.615	-
	Local Authorities		
	AAA	43.000	0.013
	UK banks		
	AA	65.000	0.019
	A	82.060	0.066
	UK building societies		
	A	25.000	0.020
		268.675	**0.118**
S&P	**Money-market funds**		
	AAA	53.615	-
	Local Authorities		
	AAA	43.000	0.004
	UK banks		
	AA	65.000	0.013
	A	82.060	0.057
	UK building societies		
	A	25.000	0.018
		268.675	**0.092**
Moody's	**Money-market funds**		
	AAA	53.615	-
	Local Authorities		
	Aa1	43.000	-
	UK banks		
	Aa3	65.000	0.033
	A1	-	-
	A2	81.250	0.055
	Baa1	0.810	0.002
	UK building societies		
	A2	25.000	0.017
		268.675	**0.107**
	Investment and highest risk	**268.675**	**0.118**

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 31.

Market Risk

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

Interest Rate Risk

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

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

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

The Authority has a number of strategies at its disposal for managing interest rate risk. A proportion of its borrowings could have been taken in variable rate loans during 2013/14, but after amendments to capital financing during the year, no new borrowing was necessary. All borrowing remains at fixed rates. During periods of falling or continued low interest rates, and where economic circumstances make it favourable, fixed rate loans can be repaid early to limit exposure to losses.

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

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

Legal and Regulatory Risk

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

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

Foreign Exchange Risk

The Authority has few financial assets and liabilities denominated in foreign currencies other than a few invoices in major currencies, namely Euros, US Dollars and Australian Dollars. Therefore there is little exposure to loss arising from exchange rates. The council holds £1,190,542 in Icelandic Krone in escrow accounts in Iceland. Due to exchange controls imposed by the Icelandic Government it is not possible at present to repatriate this in Great British Pounds (GBP). SCC is working with other Local Authorities via the LGA to find a suitable, timely solution to this issue.

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

Note 33: Short term debtors and payments in advance

2011/12 £millions	2012/13 £millions		2013/14 £millions
		Money owed to us by:	
		Government Departments:	
4.131	8.745	- Central Government	10.659
9.279	8.359	- Local Government	9.639
3.261	1.801	- NHS	4.724
-	-	- Public Corporations	0.021
0.092	0.086	Officers (for car loans and leasing arrangements)	0.055
14.785	9.407	Other organisations/individuals	9.826
12.444	9.505	Payments made in advance - Other organisations	8.080
0.012	0.012	Payments in Advance - Central Government	0.086
0.040	0.523	Payments in Advance - Local Government	0.044
44.044	**38.438**		**43.134**

Note 34: Short term creditors

2011/12 £millions	2012/13 (restated) £millions		2013/14 £millions
		Money we owe to:	
		Government Departments:	
-5.343	-5.840	- Central Government	-6.141
-5.317	-8.719	- Local Government	-7.120
-0.345	-0.367	- NHS	-0.647
-0.081	-0.001	- Public Corporations	-0.165
-39.375	-48.436	Other organisations	-51.653
-11.136	-9.817	Employees (under IAS19)	-7.867
-4.612	-5.112	Receipts in advance - Other organisations	-4.834
-	-0.130	Receipts in advance - Central Government	-0.259
-0.176	-0.218	Receipts in advance - Local Government	-
-0.042	-	Receipts in advance - NHS	-
-66.427	**-78.640**		**-78.686**

Note 35: Other long term liabilities

2011/12 £millions	2012/13 £millions		2013/14 £millions
-5.090	-45.555	Finance Lease Liability - due in more than 1 year	-46.539
-564.657	-589.459	Pensions liability	-529.979
-569.747	**-635.014**		**-576.518**

Note 36: Provisions

2011/12 £millions	2012/13 £millions		2013/14 £millions
-2.475	-2.105	Total insurance provision (excl. MMI) set aside on 1 April	-2.769
		Add:	
-1.629	-2.502	- premiums received from services	-5.388
-0.037	-0.042	- interest received	-0.042
		Less:	
0.875	0.629	- insurance premiums paid	0.704
0.680	0.718	- net claims paid	0.797
0.444	0.491	- professional and administrative costs	0.492
0.037	0.042	Transfer to reserves set aside for other purposes	0.042
-2.105	**-2.769**	**Total insurance provision set aside on 31 March**	**-6.164**
		Non-Service	
-	-	NDR Collection Fund - Provision for appeals	-1.075
		Resources	
-0.048	-	Repairs and maintenance contracts not yet complete	-
-0.012	-	Late payment on construction contract (re. Abacus)	-
-	-	Employment tribunal provision	-0.057
-	-0.020	Human resources project	-
-	-0.030	BDOM Project provision	-
		Environment	
-1.319	-	Highways and Traffic Management	-
-0.082	-	Legal costs on appeal cases	-
-0.341	-0.300	Carbon Emissions Charge	-0.291
-0.012	-	Transporting Somerset staffing costs	-
-0.030	-	Trading Standards costs relating to Tudor Chambers	-
-	-	Waste collection contract indexation	-0.062
		Children's Services	
-0.005	-	Playing for Success closure costs	-
-0.204	-0.253	Care Leavers Grant	-0.365
-0.075	-	Healthy Schools Plus Programme	-
-0.023	-	Education Business Link activity in schools	-
-0.445	-	Social worker training programme	-
-	-0.035	Maiden Beech Academy Staffing Indemnity	-0.035
-4.701	**-3.407**	**Total Provisions due in less than 1 year**	**-8.049**
-0.020	-	Trading Standards costs relating to Tudor Chambers	-
-0.778	-0.138	Municipal Mutual Insurance (MMI) Provision Relating to asbestos claims paid by MMI	-0.040
-0.798	**-0.138**	**Total Provisions due in more than 1 year**	**-0.040**

Insurance provision

The Councils own Insurance Fund directly covers a wide range of our insurance risks. However, there are a very limited range of risks which are not covered by insurance and we charge any loss which arises directly to the service concerned. At the end of the year we have £6.204million of claims not yet finally agreed (£2.907 million in 2012/13) which we have not yet charged to the fund, but we have set aside this amount as a provision. We also have an earmarked reserve for the Insurance Fund, which currently contains £2.928 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 37: Grants and Contributions Receipts in Advance

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

Capital grants/contributions

2011/12 £millions	2012/13 £millions		2013/14 £millions
		Capital Grant Receipts in Advance	
		Where the conditions are likely to be met within 1 year:	
-15.373	-14.998	- Standards Fund (Schools Department for Education)	-18.211
-4.529	-1.097	- Department for Transport	-6.046
-0.072	-	- DEFRA	-
-0.027	-	- National Lottery Heritage Grant	-
-	-	- Broadband Delivery UK Capital Grant	-2.203
-0.176	-0.003	- Other	-0.554
-1.862	-0.697	- Department for Communities and Local Government	-
-22.039	**-16.795**		**-27.014**
		Where the conditions are likely to be met in more than 1 year:	
-7.944	-8.084	- Standards Fund (Schools Department for Education)	-4.142
-	-	- Department for Transport	-3.027
	-0.014	- Other	-
-7.944	**-8.098**		**-7.169**
		Capital Contribution Receipts in Advance (RIA)	
		Where the conditions are likely to be met within 1 year:	
-0.695	-1.645	- Section 106 Contributions	-3.607
-0.725	-0.618	- Other Contributions to our Capital Schemes	-0.130
-1.420	**-2.263**		**-3.737**
		Where the conditions are likely to be met in more than 1 year:	
-2.626	-1.459	- Section 106 Contributions	-3.624
-0.025	-0.146	- Section 52 Contributions	-
-2.603	-2.455	- Other Contributions to our Capital Schemes	-
-5.254	**-4.060**		**-3.624**
-23.459	-19.058	Total Capital Grant/Contributions RIA's, where conditions are likely to be met within 1 year	-30.751
-13.198	-12.158	Total Capital Grant/Contributions RIA's, where conditions are likely to be met in more than 1 year	-10.793
-36.657	**-31.216**	**Total**	**-41.544**

Revenue grants

2011/12 £millions	2012/13 £millions		2013/14 £millions
		Revenue Grant Receipts in Advance	
		Where the conditions are likely to be met within 1 year:	
-5.032	-1.856	- Central Government	-0.555
-	-0.045	- NHS	-0.289
-	-	- Other Local Authorities	-0.219
-0.593	-0.009	- Other organisations	-0.007
-5.625	**-1.910**		**-1.070**
		Where the conditions are likely to be met in more than 1 year:	
-0.781	-	- Central Government	-
-	-0.015	- NHS	-
-0.781	**-0.015**		**-**
-6.406	**-1.925**		**-1.070**

Note 38: Usable Reserves

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

2011/12 £millions	2012/13 £millions		2013/14 £millions
21.559	20.063	General Fund - Schools	18.090
24.203	24.081	General Fund - Other	31.903
38.159	45.292	Earmarked Reserves - set aside for revenue purposes	57.614
14.610	19.972	Capital Receipts Reserve	22.962
10.193	10.441	Capital Grants Unapplied Reserve	9.271
6.876	7.157	Capital Contributions Unapplied Reserve	2.194
115.600	**127.006**	**Total Usable Reserves**	**142.034**

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

General Fund – Schools

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

General Fund – Other

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

Earmarked Reserves – set aside for revenue purposes

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

Capital Receipts Reserve

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

Capital Grants & Contributions Unapplied Reserves

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

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

Note 39: Unusable Reserves

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

2011/12 (Restated) £millions	2012/13 (Restated) £millions		2013/14 £millions
182.999	216.524	Revaluation Reserve	321.327
390.458	355.599	Capital Adjustment Account	322.739
23.934	22.907	Deferred Capital Receipts Reserve	20.338
-564.657	-589.459	Pensions Reserve	-529.979
2.829	0.230	Collection Fund Adjustment Account	3.250
-11.135	-9.817	Accumulated Compensated Absences Adjustment Account	-7.867
24.428	**-4.016**	**Total Unusable Reserves**	**129.808**

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.

2012/13 (Restated) £millions		2013/14 £millions	2013/14 £millions
182.999	**Balance at 1 April**		**216.524**
49.869	Upward revaluation of assets	156.113	
-2.847	Revaluation/Impairment (losses) not charged to the Surplus/Deficit on the Provision of Services	-18.877	
47.022	Surplus/Deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services		**137.236**
-5.846	Difference between fair value depreciation and historical cost dep'n	-4.061	
-7.651	Accumulated gains on asset disposals	-28.372	
-13.497	Amount written off to the Capital Adjustment Account		**-32.433**
216.524	**Balance at 31 March**		**321.327**

Capital Adjustment Account

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

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

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

2012/13 (Restated) £millions			2013/14 £millions
390.458	**Balance at 1 April**		**355.599**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
-44.038	- Charges for depreciation and impairment of non current assets/assets held for sale	-44.124	
-5.951	- Revaluation losses on Property, Plant and Equipment	-9.148	
-0.325	- Amortisation of intangible assets	-0.329	
0.670	- Reversal of Icelandic impairment	0.175	
-16.935	- Revenue expenditure funded from capital under statute	-18.851	
-67.831	- Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-74.114	
-134.410			-146.391
13.498	Adjusting amounts written out of the Revaluation Reserve		32.434
-120.912	Net written out amount of the cost of non current assets consumed in the year		-113.957
	Capital Financing applied in the year:		
6.464	- use of the Capital Receipts Reserve to finance new capital expenditure	5.413	
56.273	- Capital grants and contributions that have been applied to capital financing	55.888	
22.731	- Statutory provision for the financing of capital investment charged against the General Fund balance	19.159	
0.354	- Capital expenditure charged against the General Fund balance	1.128	
85.822			81.588
-0.124	Repayment made in year to reduce the capitalised Icelandic investment impairment		-0.845
0.355	Repayment made in year to reduce the capitalised redundancy costs		0.354
355.599	**Balance at 31 March**		**322.739**

Deferred Capital Receipts Reserve

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

2011/12 £millions		2013/14 £millions
23.934	**Balance at 1 April**	**22.907**
-1.027	Amounts transferred to the Capital Receipts Reserve during the year	-0.859
	Other movements:	
0.000	Cancellation of Frith House & Pulsford Lodge finance lease	-1.710
22.907	**Balance at 31 March**	**20.338**

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.

2012/13 (Restated) £millions		2013/14 £millions
-564.657	**Balance at 1 April**	**-589.459**
6.232	Remeasurement gains / losses (-) on pension assets/liabilities	86.953
-57.431	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	-54.150
26.397	Employer's pensions contributions and direct payments to pensioners payable in the year	26.677
-589.459	**Balance at 31 March**	**-529.979**

Collection Fund Adjustment Account

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

2012/13 £millions		2013/14 £millions
2.829	**Balance at 1 April**	**0.230**
-2.599	Amount by which Council Tax income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax income calculated for the year in accordance with statutory requirements	3.763
-	Amount by which NDR income credited to the Comprehensive Income and Expenditure Statement is different from NDR income calculated for the year in accordance with statutory requirements	-0.743
0.230	**Balance at 31 March**	**3.250**

Accumulated Compensated Absences Adjustment Account

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

2011/12 £millions		2013/14 £millions
-11.135	**Balance at 1 April**	**-9.817**
11.135	Settlement or cancellation of accrual made at the end of the preceding year	9.817
-9.817	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	-7.867
-9.817	**Balance at 31 March**	**-7.867**

Note 40: 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.

2011/12 £millions	2012/13 £millions		2013/14 £millions
5.278	5.857	Net Cash in hand	4.151
143.045	29.029	Short term Investment (initial maturity term less than 3 months)	130.675
148.323	**34.886**	**Cash and cash equivalents sub total**	**134.826**
-0.908	-3.045	Bank overdraft	-1.950
147.415	**31.841**	**Cash and cash equivalents at the end of the reporting period**	**132.876**

Note 41: Cash Flow Statement – Operating Activities

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

2012/13 £millions		2013/14 £millions
70.291	Net surplus(-)/deficit on the provision of services	**75.337**
-44.363	Depreciation and amortisation	-44.422
-5.951	Impairment and downward valuations	-9.179
-31.034	IAS 19 - Pension Liability	-27.473
0.670	Iceland impairment	0.175
-67.831	Carrying amount of non-current assets sold	-74.114
-6.414	Movement in working capital	6.753
-154.923		**-148.260**
53.279	Adjustment for items that are investing or financing activities	55.589
-31.353		**-17.334**

The cash flows for operating activities include the following items:

2012/13 (Restated) £millions		2013/14 £millions
-3.824	Interest received	-4.378
42.244	Interest paid	46.625

Note 42: Cash Flow Statement – Investing Activities

2012/13 £millions		2013/14 £millions
52.086	Purchase of property, plant and equipment, investment property and intangible assets	41.020
126.149	Purchase of short term and long term investments	95.000
0.041	Other payments for investing activities	2.760
-11.815	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	-8.392
-3.223	Proceeds from short term and long term investments	-151.058
-35.747	Other receipts from investing activities	-64.202
127.491	**Net cash flows from investing activities**	**-84.872**

Note 43: Cash Flow Statement – Financing Activities

2012/13 £millions		2013/14 £millions
-3.955	Cash receipts of short and long term borrowing	-3.250
19.644	Repayments of short term and long term borrowing	3.690
3.747	Other payments for financing activities	0.731
19.436	**Net cash flows from financing activities**	**1.171**

Note 44: 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.

2012/13 (Restated) £millions		2013/14 £millions
350.125	Opening Capital Financing Requirement	376.432
	Capital Investment:	
96.937	- Property, Plant and Equipment (including non-enhancing writedown)	46.402
0.004	- Intangible Assets	0.026
0.016	- Heritage Asset	0.012
0.165	- Current Assets Held for Sale	-
16.935	- Revenue Expenditure Funded from Capital Under Statute	18.851
-1.027	Reduction of long-term capital debtors	-2.569
-0.670	Capitalised Icelandic Investment Impairment/(Reversal)	-0.175
-0.355	Capitalised Redundancy Costs	-0.354
	Sources of Finance	
-6.464	- Capital receipts	-5.413
-56.273	- Government grants and contributions	-55.888
	- Sums set aside from revenue:	
-0.354	- Direct revenue contributions	-1.128
-22.731	- MRP/loans fund principal	-19.159
0.124	- Capitalised Icelandic Impairment Repayment	0.845
376.432	**Closing Capital Financing Requirement**	**357.882**

2012/13 (Restated) £millions		2013/14 £millions
	Explanation of movements in year	
-11.396	Increase/Decrease (-) in underlying need to borrow (supported by government financial assistance)	-10.923
-6.961	Increase/Decrease (-) in underlying need to borrow (unsupported by government financial assistance)	-9.370
-	Assets acquired under finance leases	-
44.664	Assets acquired under PFI/PPP contracts	1.743
26.307	**Increase/Decrease (-) in Capital Financing Requirement**	**-18.550**

Note 45: Contingent Liabilities

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

Note 46: Contingent Assets

Large parts of Somerset experienced a major flooding incident in 2013/2014. The flooding consisted of local flooding, river flooding, inland flooding due to high river levels and flows, and coastal flooding due to high tides and storm surges. There was also damage caused by high winds associated with frequent storms. Somerset County Council registered an incident on 7th January 2014 with the Department for Communities and Local Government, under the Bellwin Scheme by which it gave notice of a claim to meet the unbudgeted costs of the emergency. These costs came from a number of service areas, primarily highways, civil contingencies and transport.

The final date for claiming costs under the Bellwin Scheme is the 30th June 2014, after which our evidence will be assessed by central government and any payments due will be made. The total value of Somerset County Council's claim, after taking into account the threshold for such claims, is approximately £1.3million, subject to final approval.

The timing of the result of the claim is not known at the time of writing, but is anticipated to be late 2014.

Note 47: Trust Funds

We have not included these funds, which we manage on behalf of trusts, on our consolidated balance sheet because the money does not belong to us. Most of the money can only be used for residential homes and educational purposes. On 31 March 2014 the balances were:

2012/13 £millions		2013/14 £millions
0.949	Field House	0.926
0.039	Other trusts	0.039
0.988		**0.965**

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:

2012/13 £millions		2013/14 £millions
-0.053	Total income	-0.054
0.077	Total spending	0.077
0.024	**(Surplus)/ Deficit**	**0.023**
0.949	Value of assets	0.926
-	Less: long-term liabilities	-
0.949	**Total value of the fund**	**0.926**

Note 48: Pension Schemes

Participation in Pension Schemes

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

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

- The Local Government Pension Scheme (LGPS), administered locally by the Authority, is a defined benefit statutory scheme where benefits accrued up to 31 March 2014 are based on final salary and length of service on retirement. Changes to the LGPS came into effect from 1 April 2014 and any benefits accrued from this date will be based on career average revalued salary.

- The Teachers' Pension Scheme is a notionally-funded, defined-contribution scheme that is managed by the Teachers Pension Agency. This means the Authority pays contributions as if it was a funded scheme, when, in fact, it is not. Because this scheme is not funded, there is no need for a full actuarial valuation.

- The NHS Pension Scheme is an unfunded multi-employer defined benefit scheme, administered by the NHS Business Service Authority and backed by the Exchequer. Pension benefits are based on final salary (although general and dental practitioners accrue pensions on a 'career average' basis). The Authority pays contributions based on a percentage of pensionable pay, with the contribution rate reviewed every four years by the Government Actuary. We account for this scheme as a defined contribution plan, in-line with the NHS Manual;

- The National Employment Savings Trust (NEST) is a defined contribution scheme, set up as part of the government's workplace pension reforms. As a trust-based plan, run by the NEST Corporation (a non-departmental public body that is accountable to Parliament through the Department for Work and Pensions), the Authority pays contributions based on a percentage of pensionable pay.

Defined Contribution Schemes:

Teachers' Pension Scheme

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

2012/13 £millions	%		2013/14 £millions	%
12.874	14.10	Pension costs charged to the accounts	11.917	14.10
0.038	0.04	Discretionary payments made	0.037	0.04

National Employment Savings Trust

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

2012/13 £millions	%		2013/14 £millions	%
-	0.00	Pension costs charged to the accounts	0.017	1.00
-	0.00	Discretionary payments made	-	0.00

Defined Benefit Schemes:

Local Government Pension Scheme

Characteristics and Associated Risks

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

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

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

The next actuarial valuation of the Fund will be carried out as at 31 March 2016 and will set contributions for the period from 1 April 2017 to 31 March 2020. There are no minimum funding requirements in the LGPS but the contributions are generally set to target a funding level of 100% using the actuarial valuation assumptions.

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

- Investment risk. The Fund holds investment in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term, the short-term volatility can cause additional funding to be required if a deficit emerges.

- Interest rate risk. The Fund's liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the Fund holds assets such as equities the value of the assets and liabilities may not move in the same way.

- Inflation risk. All of the benefits under the Fund are linked to inflation and so deficits may emerge to the extent that the assets are not linked to inflation.

- Longevity risk. In the event that the members live longer than assumed a deficit will emerge in the Fund. There are also other demographic risks.

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

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

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

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	Local Government Pension Scheme	
	2012/13 £millions	2013/14 £millions
Comprehensive Income and Expenditure Statement		
Net Cost of Services:		
- current service cost	36.233	38.300
- past service cost and gains/losses arising from settlements	-4.083	-10.107
Financing and Investment Income and Expenditure:		
- net interest expense	25.281	25.957
Total Post-employment Benefit Charged to the Surplus or Deficit on the Provision of Services	**57.431**	**54.150**
Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement		
Remeasurement of the net defined benefit liability comprising:		
- return on plan assets (excluding the amount included in the net interest expense)	-62.081	-8.174
- actuarial (gains) and losses arising on changes in demograpic assumptions	-	29.140
- actuarial (gains) and losses arising on changes in financial assumptions	54.419	23.550
- other actuarial (gains)/losses on plan assets	-	14.532
- experience (gain)/loss on defined benefit obligation	1.430	-146.001
	-6.232	**-86.953**
Total Post-employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**51.199**	**-32.803**
Movement in Reserves Statement		
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits in accordance with the Code	**-57.431**	**-54.150**
Actual amount charged against the General Fund Balance for pensions in the year:		
- employers' contributions payable to the scheme	**26.397**	**26.677**

Pensions Assets and Liabilities Recognised in the Balance Sheet

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

	Local Government Pension Scheme		
	2011/12 £millions	2012/13 £millions	2013/14 £millions
Present value of the defined benefit obligation:			
- Funded obligation	-1,107.381	-1,217.419	-1,174.774
- Unfunded obligation	-20.469	-21.639	-23.491
	-1,127.850	-1,239.058	-1,198.265
Fair value of plan assets	563.193	649.599	668.286
Sub-total	-564.657	-589.459	-529.979
Other movements in the liability (asset)	-	-	-
Net liability arising from defined benefit obligation	**-564.657**	**-589.459**	**-529.979**

The net liability shows the underlying commitments that the authority has in the long run to pay retirement benefits. The total liability of £529.979 million has a substantial impact on the net worth of the authority as recorded in the Balance Sheet.

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

The pension fund deficit at 31 March 2014 has reduced by approximately £59 million from 31 March 2013. This is due to changes in mortality assumptions, a better than expected return on assets over the year and a significant settlement gain during the year.

Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets:	**2012/13 £millions**	**2013/14 £millions**
Opening balance at 1 April	**563.193**	**649.599**
Interest income	25.719	28.873
Remeasurement gain/(loss):		
- return on plan assets (excluding the amount included in the net interest expense	62.081	8.174
Other actuarial gains/(losses)	-	-14.532
Employer contributions - funded	24.908	25.029
Employer contributions - unfunded	1.489	1.648
Contributions by scheme participants	8.778	8.622
Benefits paid (including unfunded)	-33.680	-35.570
Other	-2.889	-3.557
Closing balance at 31 March	**649.599**	**668.286**

The actual rate of return identified in the table above for 2013/14 represents 1.26% of plan assets (as at 1st April 2013).

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

Fair Value of Scheme Assets	2013/14 £millions
Cash and cash equivalents	13.366
Equities:	
- Quoted	183.050
- Standard Life Smaller Companies Fund	4.503
Private Equity:	
- Neuberger Berman Crossroads 2010 Fund	3.893
- Neuberger Berman Crossroads XX Fund	0.740
- South West Regional Venture Fund	0.862
Overseas Equities:	
- North America	123.978
- Europe	71.131
- Japan	13.760
- Pacific (excluding Japan)	27.862
- Middle East	0.409
- Nomura Japan Fund	17.556
- Pioneer Emerging Markets Fund	26.624
	474.368
Derivatives:	
- forward foreign exchange contracts	0.114
Bonds:	
- UK Fixed Interest - Public Sector	51.072
- UK Index Linked - Public Sector	5.068
- Overseas - Corporate Sector Investment Grade	1.977
- Overseas - Corporate Sector High Yield	15.395
	73.512
Property:	
- UK Property Funds	64.067
- Overseas Property Funds	2.762
	66.829
Gilts:	
- UK Fixed Interest - Public Sector	15.627
- UK Index Linked - Public Sector	24.470
	40.097
Total assets	**668.286**

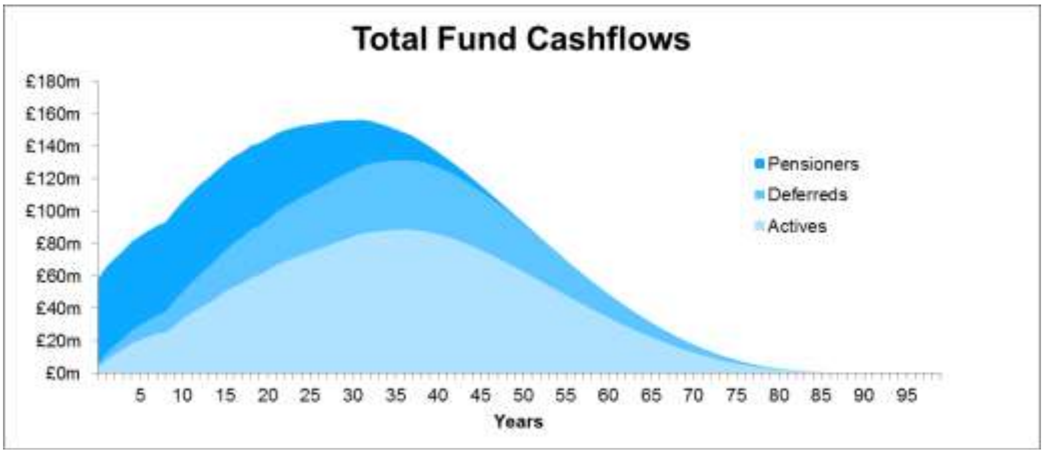
Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation):	2012/13 £millions	2013/14 £millions
Opening balance at 1 April	**-1,127.850**	**-1,239.058**
Current service cost	-36.233	-38.300
Interest cost	-51.000	-54.830
Contributions by scheme participants	-8.778	-8.622
Past service costs, including curtailments	-1.428	-0.498
Settlements	8.400	14.162
Benefits paid (including unfunded)	33.680	35.570
Remeasurement gains and (losses):		
- actuarial gains/(losses) arising from changes in demographic assumptions	-	-29.140
- actuarial gains/(losses) arising from changes in financial assumptions	-54.419	-23.550
- experience gain/(loss) on defined benefit obligation	-1.430	146.001
Closing balance at 31 March	**-1,239.058**	**-1,198.265**

Impact on the Authority's Cashflows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The County Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 25 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31 March 2016. The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other existing public service schemes may not provide benefits in relation to service after 31 March 2014 (or service after 31 March 2015 for other main existing public service pension schemes in England and Wales). The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants. The authority anticipated to pay £34.746m expected contributions to the scheme in 2014/2015. We are also committed to making an additional payment of £7.173m during 2014/15, as a lump sum deficit recovery contribution

The weighted average duration of the defined benefit obligation for scheme members is 20 years, 2013/14 (22 years in 2012/13).

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



Basis for Estimating Assets and Liabilities

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

Barnett Waddingham (public sector consulting actuaries) assessed the value of the County Council Fund liabilities as at 31 March 2014, by rolling forward the value of the liabilities calculated for the Triennial valuation as at 31 March 2013 allowing for the different financial assumptions required under IAS19. A similar roll-forward approach was taken for the report as at 31 March 2013.

The principal assumptions used by the actuary have been:

2012/13		2013/14
	Long-term expected rate of return on assets in the scheme:	
6%	Expected return based on single net interest cost	6%
	Mortality Assumptions:	
	Longevity (in years) at 65 for current pensioners:	
20.1	- Men	23.6
24.1	- Women	26.0
	Longevity (in years) at 65 for future pensioners:	
22.1	- Men	25.8
26.0	- Women	28.3
2.6%	Rate of Inflation (CPI)	2.8%
4.8%	Rate of increase in salaries	4.6%
2.6%	Rate of increase in pensions	2.8%
4.5%	Rate of discounting scheme liabilities	4.5%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analysis below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit method.

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

Sensitivity Analysis	£000's	£000's	£000's
Adjustment to discount rate	**+0.1%**	**0.0%**	**-0.1%**
Present value of total obligation	1,175,885	1,198,265	1,221,093
Projected service cost	32,314	33,094	33,893
Adjustment to long term salary increase	**+0.1%**	**0.0%**	**-0.1%**
Present value of total obligation	1,201,730	1,198,265	1,194,823
Projected service cost	33,094	33,094	33,094
Adjustment to pension increases and deferred revaluation	**+0.1%**	**0.0%**	**-0.1%**
Present value of total obligation	1,217,987	1,198,265	1,178,939
Projected service cost	33,905	33,094	32,301
Adjustment to mortality age rating assumption	**+1 Year**	**None**	**-1 Year**
Present value of total obligation	1,157,388	1,198,265	1,239,488
Projected service cost	31,993	33,094	34,204

NHS Pension Scheme

In line with the NHS Manual, we are required to account for this scheme as a defined contribution plan.

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

2012/13			2013/14	
£millions	%		£millions	%
-	0.00	Pension costs charged to the accounts	0.170	14.00
-	0.00	Discretionary payments made	0.009	0.75

Group accounts

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

PLUSS Ltd

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

The company's accounts are available from:

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

Futures for Somerset

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

The companies accounts can be obtained from:

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

The Pension Fund

Local Government Pension Scheme (LGP Fund)

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

Who the pension fund covers

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

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

Contributions by employees are based on seven tiered contribution bands dependent on the individual employee’s pay, the seven contribution bands range from 5.5% to 7.5%. Nationally the Government estimate the average employee contribution is 6.3%.

All employers' contribution rates are decided by the fund's actuary every three years as part of his valuation of the fund. The rates for the 2013-2014 financial year were the last year covered by the valuation of the fund as at 31 March 2010. For Somerset County Council, for example, the employer's contribution rate for the three years covered by this valuation is 13.5% for each of the years from 2011 to 2014 plus a fixed sum of £3.77m for 2011/2012, £4.88m for 2012/2013 and £5.83m for 2013/2014. This compares with a rate of 15.1% for the 2010/2011 year set under the 2007 valuation. A common contribution rate will, in the long term, be enough to meet the liabilities of the fund assessed on a full-funding basis – this was 17.9% at the 2010 valuation (14.7% at the 2007 valuation). This common contribution rate can be split into amounts that meet new service and an amount needed to make up the deficit in the fund, the common rate of 17.9% is made up of a rate of 13.1% for new service and 4.8% for deficit funding. As part of the 2010 valuation most employers have agreed to meet the deficit funding portion by paying a fixed monetary amount rather than a percentage of pensionable pay (as demonstrated by the example of Somerset County Council above). The aim of this is to remove the volatility caused by changing staff levels. At the valuation the actuary estimated that the fund’s assets covered 77% of the fund’s liabilities. The results of the 2013 valuation using data at 31 March 2013, and setting contribution rates for 2014 to 2017, are available and take account of the new career average scheme being introduced by the Government. The common contribution rate from the 2013 valuation is 20.4%, made up of 13.5% for future service and 6.9% for deficit funding. The actuary estimated that the fund’s assets covered 75% of the fund’s liabilities.

The pension and lump-sum payments that employees receive when they retire are currently related to their final year’s salary and also how long they have worked for an employer within the fund. Increases in pension payments linked to inflation come out of the fund.

Fund Account

2012/2013 £ millions	2012/2013 £ millions Restated		2013/2014 £ millions	2013/2014 £ millions	Notes
		Contributions and other income			
18.926		Contributions from employees	20.002		1
54.109		Contributions from employers	53.060		1
1.478		Recoveries from member organisations	1.458		1
4.721		Transfer values received	4.830		2
79.234			**79.350**		
		Less benefits and other payments			
-56.489		Recurring pensions	-59.432		1
-14.223		Lump sum on retirement	-11.775		1
-1.265		Lump sum on death	-1.549		1
-4.572		Transfer values paid	-4.345		2
-0.013		Refund of contributions to leavers	-0.008		3
-1.157		Administrative expenses	-1.657		4
-77.719			**-78.766**		
	1.515	**Net additions from dealings with members**		**0.584**	
		Investment income			
33.587		Investment income received	46.759		5
4.979		Investment income accrued	4.771		5
-3.160		Less investment management expenses	-3.358		6
-0.338		Less irrecoverable tax	-0.805		
0.008		Other income (such as commission)	0.007		
35.076			**47.374**		
		Change in market value of investments			
26.247		Realised profit or loss	54.300		
106.698		Unrealised profit or loss	-1.187		
132.945			**53.113**		
	168.021	**Net return on investments**		**100.487**	
	169.536	**Net increase in the net assets available for benefits during the year**		**101.071**	
		Change in actuarial present value of promised retirement benefits			
-120.905		Vested benefits	-199.996		
-65.399		Non-vested benefits	93.658		
	-186.304	**Net change in present value of promised benefits**		**-106.338**	
	-16.768	**Net increase/(decrease) in the fund during the year**		**-5.267**	
	-1,095.204	Add net liabilities at beginning of year		-1,111.972	
	-1,111.972	**Net liabilities at end of year**		**-1,117.239**	

Net Asset Statement

On 31 March 2013 £ millions		On 31 March 2014 £ millions	Notes
	Investment assets and liabilities		
1,361.834	Investment assets	1,461.211	7
-0.195	Investment liabilities	-0.008	7
4.706	Other investment balances	5.543	11
	Current assets		
4.622	Contributions due from employers	4.746	
0.014	Cash at bank	0.000	
0.263	Other debtors	0.632	
	Current liabilities		
0.000	Unpaid benefits	0.000	
0.000	Bank overdraft	-0.622	
-2.659	Other creditors	-1.846	
1,368.585	**Net assets of the scheme available to fund benefits at end of year**	**1,469.656**	
	Actuarial present value of promised retirement benefits		
-1,959.990	Vested benefits	-2,159.986	
-520.567	Non-vested benefits	-426.909	
-1,111.972	**Net liabilities at end of year**	**-1,117.239**	

Accounting policies

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

The Pension Fund financial statements have also been prepared in line with the Code of Practice on Local Authority Accounting in the UK 2013/14, which is based upon the International Financial Reporting Standard (IFRS), as amended for the UK public sector.

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

- investments are included at market value;

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

- fixed interest securities are valued excluding accrued income;

- pooled investment vehicles are stated at bid price for funds with bid/offer spreads, or single price (typically net asset value) where there are no bid/offer spreads, as provided by the investment manager;

- forward foreign exchange contracts are valued using the foreign exchange rate at the date of the net asset statement;

- The Neuberger Berman Crossroads 2010 fund and the Neuberger Berman Crossroads XX fund are valued using data supplied by the funds quarterly;

- the South West Regional Venture Fund is valued at cost;

- contributions and benefits are accounted for in the period in which they fall due;

- interest on deposits and fixed interest securities are accrued if they are not received by the end of the financial year;

- interest on investments are accrued if they are not received by the end of the financial year;

- all dividends and interest on investments are accounted for on 'ex-dividend' dates;

- all settlements for buying and selling of investments are accrued on the day of trading;

- transfer values are accounted for when money is received or paid. This treatment is in line with the revised SORP which applied fully from 1 April 1998. 1 transfer out of the scheme amounting to £11,000 was agreed but not settled on 31 March 2014. There was no transfer in 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.

- Cash and cash equivalents on the Net Asset statement are restricted to ‘cash at bank’ and ‘bank overdraft’. All cash (overdraft) not in the pensions fund’s standard bank account with NatWest is treated as an Investment asset and is shown in note 7.

Notes to the Accounts

Note 1: Contributions and benefits

	Somerset County Council £ millions	Other scheduled employers £ millions	Admitted employers £ millions	Total £ millions
Employees' contributions				
- Normal	8.349	9.913	1.304	**19.566**
- Additional	0.222	0.204	0.010	**0.436**
Total	8.571	10.117	1.314	**20.002**
Employers' contributions				
- Normal	18.248	20.925	2.995	**42.168**
- Augmentation	0.309	0.451	0.115	**0.875**
- Deficit funding	5.830	3.470	0.717	**10.017**
Total	24.387	24.846	3.827	**53.060**
Recurring pension and lump sum payments	-34.091	-32.072	-6.593	**-72.756**
Money recovered from member organisations	0.063	1.367	0.031	**1.461**
	-1.070	**4.258**	**-1.421**	**1.767**

Note 1: Contributions and benefits (continued)

	Employees' contributions	Employers' contributions	Total
County council			
Somerset	8.571	24.387	32.958
Police & Crime Commissioner			
Avon & Somerset	3.992	8.584	12.576
District councils			
Mendip	0.256	0.878	1.134
Sedgemoor	0.506	1.569	2.075
South Somerset	0.680	1.915	2.595
Taunton Deane	0.749	2.125	2.874
West Somerset	0.139	0.452	0.591
Parish and town councils			
Axbridge Town Council	0.001	0.003	0.004
Berrow Parish Council	0.001	0.003	0.004
Burnham & Highbridge Town Council	0.004	0.012	0.016
Burnham & Highbridge Burial Board	0.005	0.016	0.021
Chard Town Council	0.010	0.033	0.043
Cheddar Parish Council	0.004	0.004	0.008
Crewkerne Town Council & Burial Board	0.007	0.020	0.027
Frome Town Council	0.018	0.049	0.067
Glastonbury Town Council	0.005	0.015	0.020
Ilminster Town Council	0.005	0.014	0.019
Langport Town Council	0.002	0.003	0.005
Lower Brue Drainage Board	0.025	0.068	0.093
Minehead Town Council	0.006	0.016	0.022
Nether Stowey Parish Council	0.001	0.003	0.004
Shepton Mallet Town Council	0.001	0.004	0.005
Somerton Town Council	0.004	0.010	0.014
Street Parish Council	0.003	0.007	0.010
Wellington Town Council	0.001	0.002	0.003
Wells Burial Board & Parish Council	0.022	0.031	0.053
Williton Parish Council	0.001	0.003	0.004
Wincanton Town Council	0.003	0.007	0.010
Yeovil Town Council	0.010	0.022	0.032
Other bodies			
Avon and Somerset Probation Trust	0.838	2.026	2.864
Exmoor National Park	0.109	0.270	0.379
Further-education colleges			
Bridgwater College	0.553	1.302	1.855
Richard Huish Sixth Form College	0.097	0.217	0.314
Somerset College of Art and Technology	0.215	0.536	0.751
Strode College	0.124	0.308	0.432
Yeovil College	0.200	0.440	0.640

Table continued on next page

Note 1: Contributions and benefits (continued)

	Employees' contributions	Employers' contributions	Total
Academies			
Ansford Academy	0.027	0.069	0.096
Avishayes Academy	0.017	0.045	0.062
Axbridge Academy	0.011	0.028	0.039
Bath & Wells Academy Trust	0.008	0.017	0.025
Bishop Fox’s Academy	0.035	0.087	0.122
Bridgwater College Academy	0.078	0.200	0.278
Brookside Academy	0.057	0.150	0.207
Bruton Sexey’s School	0.038	0.083	0.121
Brymore Academy	0.025	0.061	0.086
Buckler’s Mead Academy	0.043	0.114	0.157
Buckler’s Mead Leisure	0.002	0.005	0.007
Castle Academy	0.055	0.139	0.194
Cheddon Fitzpaine School	0.003	0.009	0.012
Churchfield School	0.028	0.075	0.103
Courtfields Academy	0.011	0.026	0.037
Crispin Academy	0.052	0.131	0.183
Danesfield Academy	0.002	0.006	0.008
Enmore Academy	0.005	0.012	0.017
Hamp Academy	0.011	0.028	0.039
Hayesdown Academy	0.008	0.020	0.028
Haygrove Academy	0.049	0.125	0.174
Holyrood Academy	0.057	0.143	0.200
Horrington Primary School	0.007	0.016	0.023
Horsington Academy	0.001	0.004	0.005
Huish Academy	0.005	0.013	0.018
Huish Episcopi Academy	0.062	0.174	0.236
Kings of Wessex Academy	0.035	0.085	0.120
Kings of Wessex Leisure	0.010	0.024	0.034
Kingsmead Academy	0.042	0.103	0.145
Maiden Beech Academy	0.026	0.065	0.091
Manor Court Primary School	0.021	0.054	0.075

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Note 1: Contributions and benefits (continued)

	Employees' contributions	Employers' contributions	Total
Academies (continued)			
Minehead Middle School	0.038	0.102	0.140
Monteclefe Academy	0.006	0.017	0.023
North Town Academy	0.016	0.045	0.061
Oakfield Academy	0.028	0.072	0.100
Old Cleeve Academy	0.001	0.002	0.003
Pen Mill Academy	0.011	0.030	0.041
Preston Academy	0.044	0.112	0.156
Preston C of E Primary School	0.008	0.020	0.028
Priorswood Academy	0.010	0.026	0.036
Redstart Academy	0.023	0.054	0.077
Selwood Academy	0.034	0.088	0.122
St. Andrew's Church School	0.006	0.017	0.023
St. Dunstan’s Academy	0.028	0.071	0.099
St. Cuthbert's Academy	0.006	0.017	0.023
St. James Church School	0.016	0.042	0.058
St. John and St. Francis Church School	0.022	0.054	0.076
St. Michael's Academy	0.013	0.033	0.046
St. Peter's Academy	0.001	0.002	0.003
Stanchester Academy	0.030	0.078	0.108
Steiner Academy, Frome	0.009	0.022	0.031
Tatworth Academy	0.007	0.018	0.025
Taunton Academy	0.047	0.115	0.162
The Blue School, Wells	0.081	0.206	0.287
Weare Academy	0.008	0.021	0.029
Wedmore Academy	0.012	0.031	0.043
Wellesley Park Primary School	0.014	0.036	0.050
West Somerset Community College	0.085	0.222	0.307
Westfield Academy	0.053	0.132	0.185
Whitstone Academy	0.029	0.075	0.104
Woolavington Academy	0.003	0.008	0.011
Total other scheduled employers	10.117	24.846	34.963

Table continued on next page

Note 1: Contributions and benefits (continued)

	Employees' contributions	Employers' contributions	Total
Admitted bodies			
Aster Communities Ltd	0.055	0.177	0.232
BAM FM	0.010	0.030	0.040
Care Focus Somerset Ltd	0.004	0.008	0.012
Chapter One	0.001	0.002	0.003
Edward and Ward Ltd	0.031	0.101	0.132
Homes in Sedgemoor	0.088	0.202	0.290
ICM	0.018	0.063	0.081
Learning South West	0.017	0.070	0.087
Leisure East Devon	0.012	0.026	0.038
Magna West Somerset Housing Association	0.093	0.233	0.326
Mama Bear's	0.002	0.005	0.007
May Gurney Ltd	0.028	0.063	0.091
MD Building Services	0.029	0.073	0.102
National Autistic Society	0.013	0.042	0.055
NSL Ltd	0.033	0.086	0.119
RM Education	0.004	0.008	0.012
SHAL Housing Ltd	0.030	0.078	0.108
1610 Ltd	0.057	0.107	0.164
SASP	0.017	0.034	0.051
Society of Local Council Clerks	0.018	0.048	0.066
Somerset Care Ltd	0.058	0.273	0.331
Somerset Rural Youth Project	0.001	0.004	0.005
South West Audit Partnership	0.110	0.286	0.396
South West Provincial Councils	0.027	0.169	0.196
Tone Leisure Ltd	0.082	0.170	0.252
Wyvern Nursery Ltd	0.031	0.069	0.100
Yarlington Housing Group	0.445	1.400	1.845
Total admitted employers	1.314	3.827	5.141
Total	**20.002**	**53.060**	**73.062**

Note 2: Transfer Values

2012/2013 £ millions		2013/2014 £ millions
0.892	Group transfer values received	0.000
3.829	Individual transfer values received	4.830
4.721		**4.830**
0.000	Group transfer values paid	0.000
-4.572	Individual transfer values paid	-4.345
-4.572		**-4.345**

Note 3: Refunds

2012/2013 £ millions		2013/2014 £ millions
-0.010	Contributions refunded to people who leave with less than three months' service	-0.006
-0.002	Interest accumulated on refunds agreed in the past	-0.003
-0.012		**-0.009**
0.002	Deductions from contributions equivalent premium	0.000
-0.003	Less payments to Department for Work and Pensions contributions equivalent premium	0.001
-0.013		**-0.008**

Note 4: Administration Expenses

2012/2013 £ millions		2013/2014 £ millions
-0.652	Benefits administration costs charged by Somerset CC	-0.455
0.000	Benefits administration costs charged by Devon CC	-0.769
-0.192	Investments administration costs charged by Somerset CC	-0.192
-0.844		**-1.416**
-0.114	Actuary's fees	-0.128
0.041	Recharge of Actuary's fees to employers	0.038
-0.073		**-0.090**
-0.002	Legal advice costs charged by Somerset CC	-0.003
-0.088	External legal advice	-0.047
-0.090		**-0.050**
-0.030	Audit fees	-0.024
-0.120	Other expenses	-0.077
-1.157		**-1.657**

Note 5: Investment Income

2012/2013 £ millions		2013/2014 £ millions
9.809	Fixed interest	10.259
0.721	Index linked	0.590
10.463	UK equities	17.711
11.574	Foreign equities	12.479
5.525	Property unit trusts	10.192
0.377	Cash invested internally	0.148
0.000	Venture capital	0.000
0.001	Commission recapture	0.000
0.096	Stock lending	0.151
38.566		**51.530**

Note 6: Investment Expenses

2012/2013 £ millions		2013/2014 £ millions
	Fund manager fees	
-0.200	Aviva Investors	-0.224
-0.915	Jupiter Asset Management	-0.846
-0.149	Pioneer	-0.169
-1.000	Standard Life Investments	-1.439
-0.048	UBS Global Asset Management	0.000
-2.312		**-2.678**
	Other expenses	
-0.091	Professional services and subscriptions	-0.108
-0.115	Specialist IT systems	-0.121
-0.073	Custody fees	-0.041
-0.021	Performance measurement fees	-0.021
-0.548	Property unit trust managers' fees	-0.389
-0.848		**-0.680**
-3.160		**-3.358**

Note 7: Investment Assets & Liabilities

31 March 2013 £ millions	£ millions	%	%		31 March 2014 £ millions	£ millions	%	%
				UK equities				
355.891		26.1		Quoted	396.744		27.2	
7.118		0.5		Standard Life smaller companies fund	9.375		0.6	
	363.009		**26.6**			**406.119**		**27.8**
				Overseas equities				
264.018		19.4		North America	279.408		19.1	
142.203		10.4		Europe	157.235		10.8	
27.989		2.1		Japan	30.740		2.1	
73.558		5.4		Pacific (not including Japan)	63.304		4.3	
0.851		0.1		Middle East	0.955		0.1	
38.361		2.8		Nomura Japan fund	38.027		2.6	
54.954		4.0		Pioneer emerging markets fund	60.901		4.2	
	601.934		**44.2**			**630.570**		**43.2**
				Bonds				
35.629		2.6		UK fixed-interest - public sector	36.583		2.5	
107.754		8.0		- corporate sector investment grade	105.719		7.2	
7.327		0.5		- corporate sector high yield	11.918		0.8	
1.025		0.1		Overseas - public sector	0.000		0.0	
2.972		0.2		- corporate sector investment grade	4.768		0.3	
33.417		2.5		- corporate sector high yield	33.241		2.3	
64.941		4.8		UK index-linked - public sector	56.613		3.9	
0.000		0.0		- corporate sector	0.000		0.0	
0.000		0.0		Overseas index-linked - public sector	0.000		0.0	
	253.065		**18.7**			**248.842**		**17.0**
				Property				
104.958		7.7		UK property funds	134.862		9.2	
7.812		0.6		Overseas property funds	5.753		0.4	
	112.770		**8.3**			**140.615**		**9.6**
				Private equity				
7.169		0.5		Neuberger Berman Crossroads 2010 fund	9.823		0.7	
0.000		0.0		Neuberger Berman Crossroads XX fund	1.932		0.1	
2.000		0.1		South West regional venture fund	1.920		0.1	
	9.169		**0.6**			**13.675**		**0.9**
				Derivatives				
0.646		0.0		Forward foreign-exchange contracts	0.150		0.0	
0.000		0.0		Government bond futures	0.000		0.0	
	0.646		**0.0**			**0.150**		**0.0**
				Cash and others				
21.241		1.6		Cash invested internally	21.240		1.5	
	21.241		**1.6**			**21.240**		**1.5**
	1,361.834		**100.0**	**Investment assets**		**1,461.211**		**100.0**

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Note 7: Investment Assets & Liabilities (continued)

31 March 2013 £ millions	£ millions	%	%		31 March 2014 £ millions	£ millions	%	%
				Derivatives				
-0.195		0.0		Forward foreign-exchange contracts	-0.008		0.0	
0.000		0.0		Government bond futures	0.000		0.0	
	-0.195		**0.0**			**-0.008**		**0.0**
	-0.195		**0.0**	**Investment liabilities**		**-0.008**		**0.0**
	1,361.639		**100.0**	**Net investment assets**		**1,461.203**		**100.0**
				Made up of				
	1,076.658			Historical cost		1,177.409		
	284.981			Unrealised profit or loss		283.794		
	1,361.639					**1,461.203**		

Note 8: Movement in Investment Assets

Manager	Asset class	Investment assets as at 1 April £ millions	Change in cash invested internally £ millions	Purchases £ millions	Sales proceeds £ millions	Realised profit or loss £ millions	Unrealised profit or loss £ millions	Investment assets as at 31 March £ millions
2012/2013	Total	1,188.737	-18.896	945.432	-886.577	26.247	106.696	1,361.639
Somerset County Council	Global equity	339.100	0.000	65.712	-62.609	4.888	9.819	356.910
Standard Life	UK equity	333.053	0.000	113.778	-77.215	-1.799	8.954	376.771
Somerset County Council	US equity	75.189	0.000	39.784	-45.149	5.149	0.962	75.935
Jupiter	European equity	82.217	0.000	24.883	-20.798	4.370	-0.657	90.015
Nomura	Japanese equity	38.360	0.000	0.000	0.000	0.000	-0.333	38.027
UBS	Far East equity	42.069	0.000	33.757	-32.006	3.961	-9.651	38.130
Pioneer	Emerging Market equity	54.954	0.000	10.000	0.000	0.000	-4.053	60.901
Standard Life	Bonds	253.064	0.000	138.296	-132.912	0.895	-10.501	248.842
Standard Life	Derivatives	0.513	0.000	514.011	-514.034	0.054	-0.460	0.084
Aviva	Property	112.771	0.000	36.275	-10.626	-1.416	3.611	140.615
Aviva	Currency	-0.061	0.000	62.623	-62.624	0.000	0.120	0.058
Neuberger Berman	Global private equity	7.169	0.000	4.208	-0.620	-0.015	1.013	11.755
Yorkshire	UK venture capital	2.000	0.000	0.000	-0.080	0.000	0.000	1.920
Somerset County Council	Cash	21.241	-38.203	0.000	0.000	38.213	-0.011	21.240
2013/2014	**Total**	**1,361.639**	**-38.203**	**1,043.327**	**-958.673**	**54.300**	**-1.187**	**1,461.203**

Note 9: Transaction Costs

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

2012/2013 £ millions Broker commissions	2012/2013 £ millions Taxes and Fees	Manager	Asset Class	2013/2014 £ millions Broker commissions	2013/2014 £ millions Taxes and Fees
		Purchase Costs			
0.014	0.017	Somerset County Council	Passive global equity	0.019	0.019
0.142	0.451	Standard Life	UK equity	0.113	0.380
0.009	0.000	Somerset County Council	Passive US equity	0.011	0.000
0.012	0.000	Jupiter	European equity	0.017	0.013
0.000	0.000	Nomura	Japanese equity	0.000	0.000
0.033	0.005	UBS	Far East equity	0.000	0.000
0.000	0.000	Somerset County Council	Far East equity	0.010	0.010
0.000	0.000	Pioneer	Emerging market equity	0.000	0.000
0.000	0.000	Standard Life	Bonds	0.000	0.000
0.000	0.000	Aviva	Property	0.000	0.000
0.000	0.000	Neuberger Berman	Global private equity	0.000	0.000
0.000	0.000	Yorkshire Fund Managers	UK venture capital	0.000	0.000
0.000	0.000	Somerset County Council	Cash	0.000	0.000
0.210	0.473			0.170	0.422
		Sales Costs			
0.016	0.008	Somerset County Council	Passive global equity	0.019	0.020
0.142	0.000	Standard Life	UK equity	0.101	0.000
0.010	0.001	Somerset County Council	Passive US equity	0.012	0.001
0.014	0.000	Jupiter	European equity	0.017	0.000
0.000	0.000	Nomura	Japanese equity	0.000	0.000
0.037	0.010	UBS	Far East equity	0.000	0.000
0.000	0.000	Somerset County Council	Far East equity	0.010	0.028
0.000	0.000	Pioneer	Emerging market equity	0.000	0.000
0.000	0.000	Standard Life	Bonds	0.000	0.000
0.000	0.000	Aviva	Property	0.000	0.000
0.000	0.000	Neuberger Berman	Global private equity	0.000	0.000
0.000	0.000	Yorkshire Fund Managers	UK venture capital	0.000	0.000
0.000	0.000	Somerset County Council	Cash	0.000	0.000
0.219	0.019			0.159	0.049
0.429	**0.492**			**0.329**	**0.471**
	0.921				**0.800**

Note 10: Management Structure

31 March 2013 £ millions	%	Manager	Asset class	31 March 2014 £ millions	%
339.100	25	Somerset County Council	Passive global equity	356.910	24
333.053	24	Standard Life	UK equity	376.771	26
75.189	5	Somerset County Council	Passive US equity	75.935	5
82.217	6	Jupiter	European equity	90.015	6
38.360	3	Nomura	Japanese equity	38.027	3
42.069	3	UBS	Far East equity	0.000	0
0.000	0	Somerset County Council	Far East equity	38.130	3
54.954	4	Pioneer	Emerging market equity	60.901	4
253.577	19	Standard Life	Bonds	248.926	17
112.710	8	Aviva	Property	140.673	10
7.169	1	Neuberger Berman	Global private equity	11.755	1
2.000	0	Yorkshire Fund Managers	UK venture capital	1.920	0
21.241	2	Somerset County Council	Cash	21.240	1
1,361.639	**100**	**Net investment assets**		**1,461.203**	**100**

Note 11: Other investment balances

31 March 2013 £ millions		31 March 2014 £ millions
	Assets	
4.328	- Accrued income	3.820
0.651	- Accrued Recoverable tax	0.951
1.667	- Payments due on investments sold	2.452
6.646		**7.223**
	Liabilities	
-1.940	- Payments not made on purchases and losses due on sales	-1.680
4.706		**5.543**

Note 12: Major Holdings

31 March 2013 Rank	31 March 2013 £ millions	Stock	Description	31 March 2014 Rank	31 March 2014 £ millions
1	54.954	Pioneer Emerging Market Equity Fund	Pooled fund of emerging market equities	1	60.901
2	38.360	Nomura Japan Fund	Pooled fund of Japanese equities	2	38.027
3	26.003	HSBC	UK bank	3	25.465
4	21.846	Royal Dutch Shell	UK oil company	4	22.862
6	15.861	BP	UK oil company	5	16.493
7	13.749	Glaxosmithkline	UK pharmaceutical company	6	14.120
5	17.044	Vodafone	UK mobile phone company	7	13.491
9	10.791	Rio Tinto	UK mining company	8	12.162
12	8.813	Aviva Pooled Pension PUT	UK property unit trust	9	11.812
8	10.869	Schroders UK PUT	UK property unit trust	10	11.801
15	8.031	Blackrock property fund	UK property unit trust	11	10.755
22	7.060	BT	UK fixed line phone company	12	10.459
27	6.476	Easyjet	UK airline company	13	10.105
20	7.169	Neuberger Berman Crossroads 2010 fund	Private equity fund	14	9.823
17	7.493	Prudential	UK life insurance company	15	9.507
39	5.575	Lendlease	UK property unit trust	16	9.460
21	7.118	Standard Life smaller companies fund	Pooled fund of UK equities	17	9.375
30	6.160	Novo Nordisk	Danish pharmaceutical company	18	9.083
48	4.949	IPIF	UK property unit trust	19	9.007
10	9.159	BHP Billiton	UK mining company	20	8.938

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 4.2% of the net investment assets.

Note 13: Derivatives

Investment in derivative instruments may only be made if they contribute to a reduction of risk or they facilitate more efficient portfolio management.

During the year the fund used forward foreign exchange contracts and bond futures.

The year end value of derivatives is as follows:

31 March 2013 £ millions				31 March 2014 £ millions		
Asset	**Liability**	**Net value**		**Asset**	**Liability**	**Net value**
			Forward foreign-exchange contracts			
0.646	-0.134	0.512	Standard Life fixed Interest	0.092	-0.008	0.084
0.000	-0.061	-0.061	Aviva	0.058	0.000	0.058
0.646	**-0.195**	**0.451**		**0.150**	**-0.008**	**0.142**
			Government bond futures			
0.000	0.000	0.000	UK gilt future	0.000	0.000	0.000
0.000	0.000	0.000	European bond future	0.000	0.000	0.000
0.000	0.000	0.000	Austrialian bond future	0.000	0.000	0.000
0.000	0.000	0.000	Canadian bond future	0.000	0.000	0.000
0.000	0.000	0.000	US treasury future	0.000	0.000	0.000
0.000	**0.000**	**0.000**		**0.000**	**0.000**	**0.000**
0.646	**-0.195**	**0.451**		**0.150**	**-0.008**	**0.142**

Standard Life hold forward foreign exchange contracts to hedge the foreign exchange risk of holding investments that are not valued in sterling in their fixed income portfolio. The non-sterling bonds are either government bonds or corporate bonds. Typically Standard Life chose to hedge 100% of their currency risk.

Aviva also hold forward foreign exchange contracts to hedge the foreign exchange risk of holding investments that are not valued in sterling in their property portfolio. The non-sterling investments are 4 funds that invest in European property and are priced in euros. Typically Aviva chose to hedge 100% of their currency risk.

The fair value of these contracts at year end is based on market foreign exchange rates at the year end date. All forward foreign exchange contracts are over the counter trades.

The bond futures are used by Standard Life to gain exposure to overseas government bonds with lower trading costs and better liquidity than trading the underlying bonds themselves. There are significant restrictions in how Standard Life may use bond futures to ensure they do not increase the overall risk of the portfolio they are managing. The bond futures are exchange traded contracts.

The gross exposure values (the value of the assets bought and sold within the derivatives contracts) are shown in the following table.

31 March 2013 £ millions				31 March 2014 £ millions		
Asset exposure value	**Liability exposure value**	**Net value**		**Asset exposure value**	**Liability exposure value**	**Net value**
			Forward foreign-exchange contracts			
41.726	-41.214	0.512	Standard Life fixed Interest	44.610	-44.526	0.084
8.103	-8.164	-0.061	Aviva	7.184	-7.126	0.058
49.829	**-49.378**	**0.451**		**51.794**	**-51.652**	**0.142**
			Government bond futures			
0.356	-0.356	0.000	UK gilt future	3.395	-3.395	0.000
0.000	0.000	0.000	European bond future	1.969	-1.969	0.000
1.323	-1.323	0.000	Austrialian bond future	0.000	0.000	0.000
1.050	-1.050	0.000	Canadian bond future	0.000	0.000	0.000
1.517	-1.517	0.000	US treasury future	2.138	-2.138	0.000
4.246	**-4.246**	**0.000**		**7.502**	**-7.502**	**0.000**
54.075	**-53.624**	**0.451**		**59.296**	**-59.154**	**0.142**

Note 14: Stock Lending

31 March 2013 £ millions		31 March 2014 £ millions
52.575	Value of stock on loan	52.232
55.966	Value of collateral held against loaned stock	55.536

31 March 2013 %		31 March 2014 %
	Form of collateral provided	
30.6	UK Government debt	34.0
1.2	US Government debt	6.7
48.4	Euro area Governments debt	47.9
0.0	US$ denominated corporate debt	0.0
0.0	€ denominated corporate debt	0.0
2.3	UK equities	2.7
17.5	Overseas equities	8.7
100.0		**100.0**

Note 15: Membership Statistics

As at 31 March	2008	2009	2010	2011	2012	2013	2014
Active scheme members	**19,886**	**20,022**	**20,450**	**20,492**	**19,505**	**19,446**	**21,057**
Pensioners							
Current (in payment)	9,706	10,126	10,821	11,664	12,301	12,636	12,460
Deferred (future liability)	10,897	12,787	13,817	14,923	14,509	15,823	17,006
Undecided leavers *					2,307	3,135	3,147
Total (active plus pensioners)	**40,489**	**42,935**	**45,088**	**47,079**	**48,622**	**51,040**	**53,670**
Active members for each current pensioner	2.05	1.98	1.89	1.76	1.59	1.54	1.69

* For 2008 to 2011 undecided leavers are included in deferred pensioners.

Note 16: Additional voluntary contributions

During the year some members of the fund paid additional voluntary contributions (AVCs) to Equitable Life and Prudential to buy extra pension benefits when they retire. The pension fund accounts, in accordance with regulation 5 (2)(C) of the Pension Scheme (Management and Investment of Funds) Regulations 1998 do not include AVC transactions. The contributions for the year and the outstanding value of assets invested via AVCs at 31 March are shown in the following table.

31 March 2013 £ millions		31 March 2014 £ millions
	Value of additional voluntary contributions	
3.814	Prudential	3.813
0.448	Equitable Life	0.408
4.262		**4.221**

2012/2013 £ millions		2013/2014 £ millions
	Additional voluntary contributions paid during the year	
0.477	Prudential	0.437
0.000	Equitable Life	0.000
0.477		**0.437**

Note 17: Related Parties

Pensions Committee members, James Hunt, Tim Carroll and Sam Crabb were active members of the councillors' scheme, which is a part of the Somerset County Council Pension Scheme, during the year. Committee members Caroline Moore and Mark Simmonds were active members of the standard scheme during the year and Committee member Sarah Payne was a deferred member of the standard scheme during the year.

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

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

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

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

Note 18: Remuneration

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

The total actual salary and benefits paid for the financial year ended 31 March 2014 of 2 officers who undertake work for the fund is greater than £50,000. The pay of these 2 officers is shown in the table below. This represents their full salary and benefits from Somerset County Council and does not represent the costs of the work these 2 officers undertake for the pension fund.

Year to 31 March 2014 Post title	Salary (including fees and allowances) £	Compensation for loss of office £	Benefits in kind £	Total wages and benefits but not including pensions contributions 2013/14 £	Employer's pension contributions £	Total wages and benefits including pensions contributions 2013/14 £
Director of Finance and Performance	100,000.00	-	-	100,000.00	13,500.00	113,500.00
Strategic Manager - Finance Technical	56,100.00	-	-	56,100.00	7,600.00	63,700.00

For comparison purposes the equivalent disclosure for the financial year ended 31 March 2013 is shown in the table below.

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

Note 19: Statement of Investment Principles

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

Note 20: Contingent liabilities

There were no contingent liabilities as at 31 March 2014.

Note 21: Post balance sheet events

There were no post balance sheet events as at 30th September 2014.

Note 22: Nature and Extent of Risks Arising from Financial Instruments

As a result of the adoption of IFRS the fund is required to make disclosures of the risks arising from holding Financial Instruments. For the purpose of this disclosure financial instruments means all of the fund's investment assets and investment liabilities as shown in note 7 of these accounts, the approximation of the fair value of the net of these assets and liabilities at 31 March 2014 being £1,461m.

The main risks from the fund's holding of financial instruments are market risk, credit risk and liquidity risk. Market risk includes price risk, interest rate risk and currency risk.

The fund's assets are managed by a mixture of officers and external fund managers as described in note 10 of these accounts. A management agreement is put in place with each external fund manager which clearly states the type of investments they are allowed to make for the fund, asset allocation ranges and any further restrictions we believe are necessary.

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

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

Market Risk

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

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

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

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

The sensitivity of the fund's investments to changes in market prices have been analysed using the volatility of returns experienced by asset classes. The volatility data has been provided by the WM Company, the fund's performance measurement advisor, and is broadly consistent with a one-standard deviation movement. The volatility is measured by the (annualised) estimated standard deviation of the returns of the assets relative to the liability returns. Such a measure is appropriate for measuring "typical" variations in the relative values of the assets and liabilities over short time periods. It is not appropriate for assessing longer term strategic issues.

Movements in market prices would have increased or decreased the investment assets valued at 31 March 2014 by the amounts shown below.

Asset class	Value of Assets £ millions	Volatility	Increase in Assets £ millions	Decrease in Assets £ millions
UK equities	406.119	17.90%	72.695	-72.695
Foreign equities	630.570	15.30%	96.477	-96.477
UK bonds	154.220	7.70%	11.875	-11.875
Overseas bonds	38.009	13.20%	5.017	-5.017
UK index-linked bonds	56.613	7.20%	4.076	-4.076
Property	140.615	6.20%	8.718	-8.718
Cash	21.240	0.00%	0.000	0.000
Others	13.817	7.50%	1.036	-1.036
Net investment assets	**1,461.203**		**199.895**	**-199.895**

Credit Risk

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

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

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

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

A source of credit risk is the cash balances held to meet operational requirements or by the managers at their discretion and cash deposits with various institutions. Internally held cash is managed on the fund's behalf by the Council's Treasury Management Team in line with the fund's Counterparty Policy which sets out the permitted counterparties and limits. The exposure within the cash management part of the portfolio to a single entity is limited to £8m and all counterparties must be rated at least “A” or higher by the three major rating agencies. In this context the fund’s cash balances (including the cash held at bank or net of bank overdraft) of £21.2m is subject to credit risk.

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

Forward foreign exchange contracts are subject to credit risk in relation to the counterparties of the contracts, which are primarily banks. The maximum credit exposure on foreign currency contracts is the full amount of the contractual settlement should the counterparty fail to meet it obligations to the fund when it falls due. The fair value and full exposure levels of the forward foreign exchange contracts held are provided in note 13 of these accounts.

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

Liquidity risk

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

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

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

The forward foreign exchange contracts held by the fund do give rise to a liquidity risk as they must be settled at a prescribed date agreed at the time of placing the contract. The exact size of this liability varies in line with foreign exchange prices on an on-going basis. The furthest date at which some of these contracts expire is never more than 6 months and the cash flows involved are regularly monitored to ensure we can meet these liabilities as they fall due. The fair value and full exposure levels of the forward foreign exchange contracts held are provided in note 13 of these accounts.

The bond futures have daily margin calls and no cash liability beyond these. The size of the daily margin calls are typically around £10,000 and therefore do not pose a significant liquidity risk to the fund.

Note 23: Fair Value Hierarchy

The fund measures fair values using the following hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Unadjusted quoted prices in an active market for identical assets or liabilities that the fund has the ability to access at the measurement date.
- Level 2: Inputs other than quoted prices under Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Unobservable inputs for the assets or liability used to measure fair value that rely on the fund's own assumptions concerning the assumptions that market participants would use in pricing an asset or liability.

The table below analyses the fund's investment assets at 31 March 2014 into the 3 levels of the fair value hierarchy.

Asset Class	Level 1 £ millions	Level 2 £ millions	Level 3 £ millions	Total £ millions
UK equities	406.119			406.119
Overseas equities	630.570			630.570
Bonds	248.842			248.842
Property funds		140.615		140.615
Private Equity funds			13.675	13.675
Forward foreign-exchange contracts	0.142			0.142
Government bond futures	0.000			0.000
Cash	21.240			21.240
Net investment assets	**1,306.913**	**140.615**	**13.675**	**1,461.203**

Note 24: Disclosures

There has not been any restatements of the prior year of these accounts.

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

Under IFRS the fund must disclose what consideration it has given to accounting standards that have not been adopted. For the 2013-14 accounts the relevant standards relate to the accounting of consolidated financial statements (IAS10), joint arrangements (IFRS11), disclosures of interests in other entities (IFRS12), fair value measurement (IFRS13), separate financial statements (IAS27), investments in associates and joint ventures (IAS28) and financial instruments: presentation – offsetting financial assets and financial liabilities (IAS32). The changes to IAS10, IFRS11, IFRS12 and IAS27 are not relevant to the fund. The changes to the employee benefits disclosures affect how the fund is represented in the accounts of our employers but does not affect the fund's accounts. The changes to financial instruments disclosures specifically addresses the effect or potential effect of netting arrangements. No such netting of assets and liabilities occurs within the fund except within individual derivatives contracts, where full disclosure is already made. As a result it is not anticipated that any of these changes would require different disclosure within these accounts if they had been adopted. It is possible that the changes to fair value measurement could have a material effect on these accounts, this new standard comes into effect for accounting periods beginning on or after 1 January 2013, so does not affect the disclosures for 2013/14. At the time of writing the CIPFA/LASAAC Local Authority Accounting Code Board have decided to defer the implementation of this standard to the 2015/16 Code, so there will be no impact to our accounts during 2014/15.

The present value of promised retirement benefits is an estimate of the value of the lump sums and pensions that the fund will pay in the future. The estimate has been calculated by the fund's actuary and has been prepared in accordance with International Accounting Standard (IAS) 26. In calculating the disclosed numbers the actuary has adopted methods and assumptions that are consistent with IAS19. In accordance with IAS 19 the assumptions used to make the calculations are set with reference to market conditions at the net asset statement date. There has been no significant change to any individual assumptions between 31 March 2013 and 31 March 2014.

KBNacey

Kevin Nacey, Director of Finance and Performance
September 2014

Glossary of terms

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

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

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

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

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

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

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

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

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

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

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

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

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

Capital receipts
The proceeds from selling assets such as buildings.

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

Capitalisation
Capitalisation of an asset takes place when its cost it is written off bit by bit, over its useful life, instead of writing off the cost in the year the asset was bought.

Carry-forwards
Revenue budgets we have not spent, which services can use in future years.

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

Central Government Grants
There are different types of grant.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Provisions
Money we keep to pay for known future costs.

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

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

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

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

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

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

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

SAP
Our computerised accounting and procurement system.

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

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

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

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

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

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

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

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

More information

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

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

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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.

Lãngüagê Liñè

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