SOMERSET COUNTY COUNCIL
STATEMENT OF ACCOUNTS 2016/17

AUDITED ACCOUNTS FOR APPROVAL

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SOMERSET County Council

Contents

Narrative Report from the Chief Finance Officer

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

Introduction

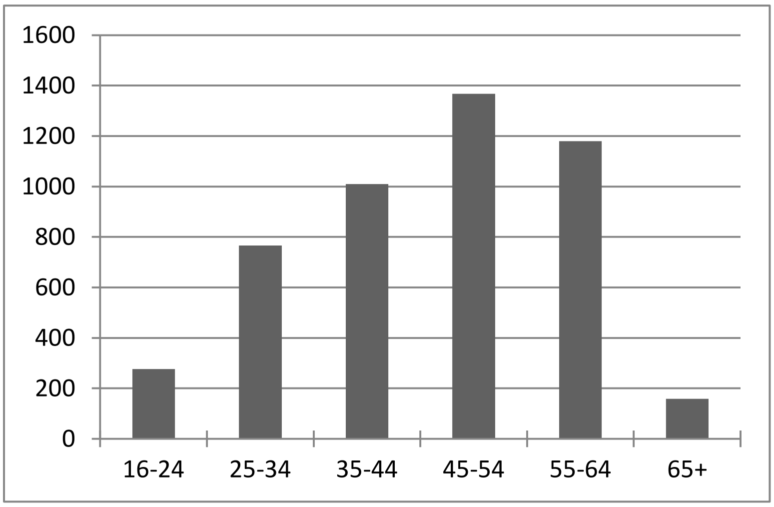
Somerset Context

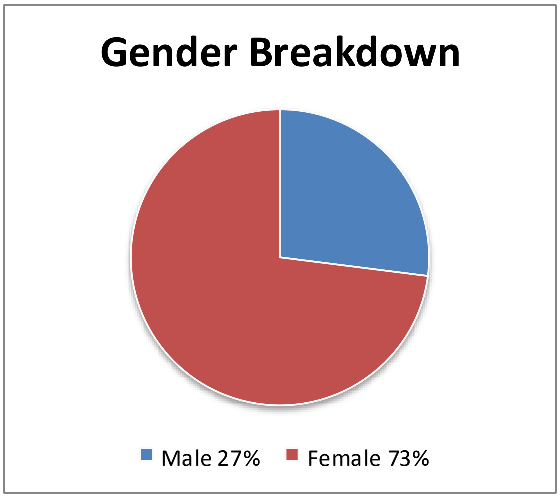
Somerset is a beautiful county with many assets including a strong and significant heritage and vast areas of countryside and moors. Somerset's population is classified as around 52% urban and 48% rural, making it one of the ten most rural counties in England. In particular, the district of West Somerset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

The population of Somerset is approximately 545,000 with an age profile that is weighted slightly towards people of older age; more than 1 in 5 of the residents of the county are over the age of 65. Somerset's employment rate remains higher than the national level (75.9% compared to 73.9%) with 78.9% of Somerset's residents aged 16-64 being classified as economically active. This is higher than the national average of 77.7% although average annual earnings in Somerset consistently lag behind the UK level.

People Context

Somerset County Council employed 4,757 people in full and part time contracts on 31st March 2017. Employees are a valued significant resource within the authority and employee's costs account for 35% of the total gross expenditure. The authority's workforce profile can be seen in the charts below.

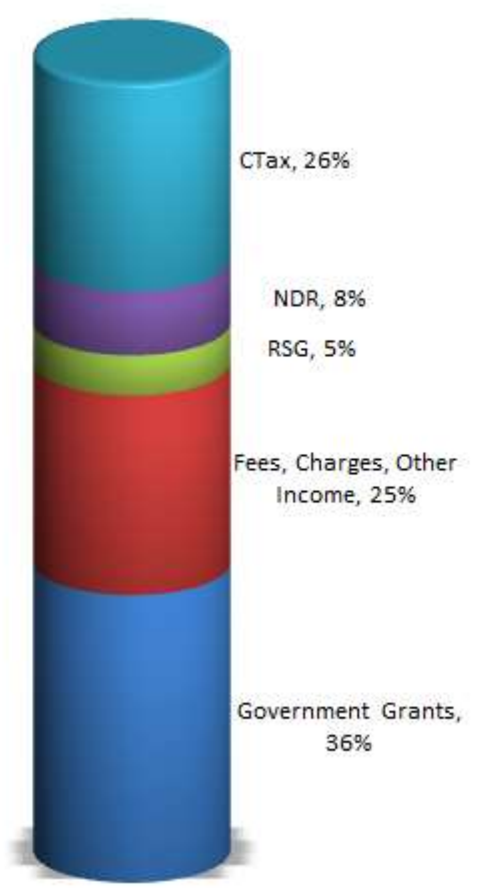




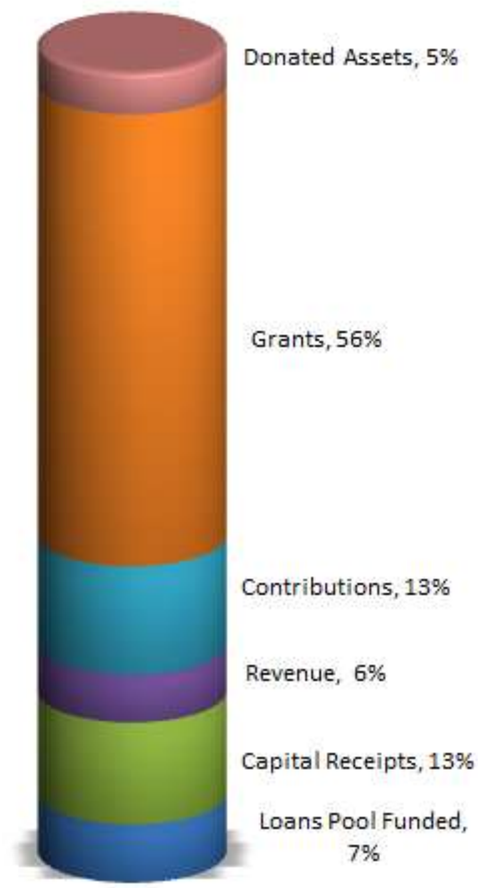
Financial Context
Nationally, 2016/17 was a relatively stable year for the Local Government sector with no significant changes in funding mechanisms or responsibilities. The main focus therefore remained on mitigating the continued austerity measures which reduced the Authority's core revenue funding by 11.5%. In February 2016, we agreed our budgets for 2016/17; revenue at £312.2 million which resulted in a band-D council tax of £1,081.64 and the Capital Investment Programme for 2016/17 of £44.682m.

The diagrams below show where our money came from. It is important to note that the contribution from the local community through the Council Tax represents just 26% of our revenue funding needs.

Revenue



Capital



Developments for the year

Childrens' Services
Following the 'Inadequate' judgement from the Ofsted Inspection carried out between 20 January 2015 and 11 February 2015, the Secretary of State, in May 2015, instructed SCC to work with officials at Essex County Council, as "the Department's advisers".

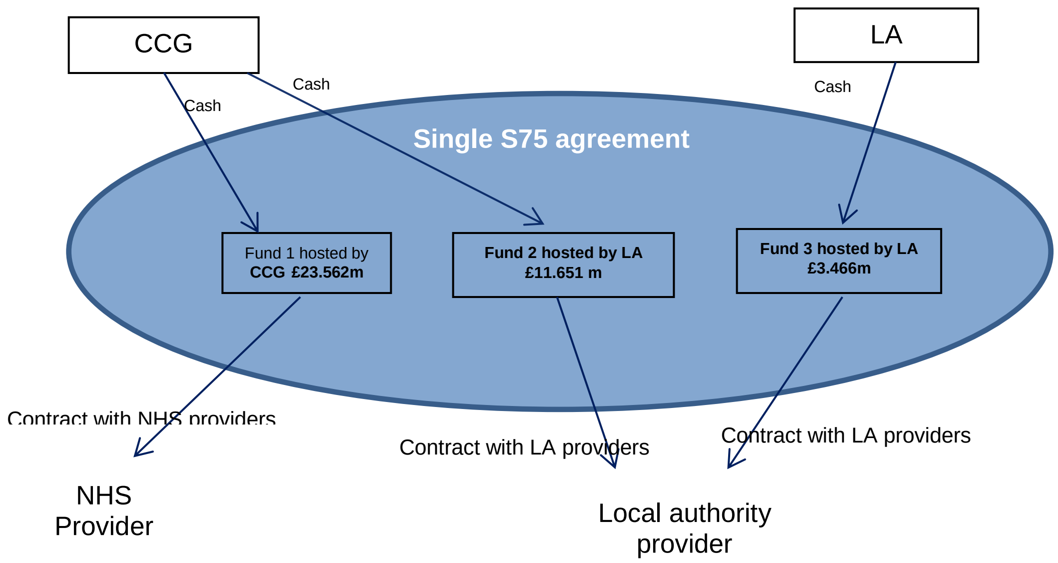
Much work has been done since that time, with regular reports to Cabinet and Scrutiny. As part of the monitoring arrangements for the DfE Quarterly Performance Review Meetings (QPRM), Children's Services have met all the requirements of the Direction to the satisfaction of the DfE Advisors (Essex County Council). Following reports from the DfE advisors, the Minister of State for Vulnerable Children and Families has confirmed in December 2016 that there has been "significant improvement" in Somerset's Children's Services, including more manageable case-loads, a more stable workforce and better partnership working. The Minister noted that these changes have led to tangible improvements in social work practice, resulting in children and families receiving a considerably better service than previously.

We await the Ofsted re-inspection with dates not yet known.

Better Care Fund

In 2015/16 the Better Care Fund was established by the Government to provide funds to local areas to support the integration of health and social care and to seek to achieve the National Conditions and Local Objectives. It is a requirement of the Better Care Fund that NHS Somerset Clinical Commissioning Group and Somerset County Council establish a pooled fund for this purpose, which has been achieved in 2016/17 through a signed agreement under Section 75 of the National Health Service Act 2006.

Under this Section 75 agreement there are three funds totalling £38.679m and hosted by whichever body undertook the contracting arrangements. These funds support the four schemes supported by the Better Care Fund namely Reablement, Person-centred care, Improved Delayed Transfer of Care (DToC) Arrangements and Housing Adaptions. The Somerset Better Care Fund arrangement is shown diagrammatically below.



More detail about this arrangement can be found within the Pooled Budget disclosure note in the Statement of Accounts on page 82.

Heart of the South West Local Enterprise Partnership
During 2016/17, the Heart of the South West Local Enterprise Partnership (HoTSW LEP) was awarded £56.7m Growth Deal funding from the Government's Local Growth Fund, a fund set up to fund projects that benefit local areas and economies. DCLG paid the monies to Somerset County Council as the accountable body for the Local Growth Deal.

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

Telling the Story
Following the CIPFA Telling the Story review of the presentation of local authority financial statements, the 2016/17 Accounting Code of Practice changed the segmental reporting arrangements for the Comprehensive Income and Expenditure Statement and introduced the Expenditure and Funding Analysis. The new Expenditure and Funding Analysis brings together local authority performance reported on the basis of expenditure measured under proper

accounting practices with statutorily defined charges to the General Fund. Both the Comprehensive Income and Expenditure Statement and the Expenditure and Funding Analysis include a segmental analysis which requires local authorities to report performance on the basis of how they are structured and how they operate, monitor and manage financial performance.

Highways Network Asset

Over the past few years CIPFA have been working with Local Authorities on a proposal to change the valuation basis of the Highways Network Assets. These assets are currently valued at historic cost and depreciated on a straight line basis. It has long been recognised that the current valuation basis significantly undervalues this type of asset. The proposal for future years was to value this asset type on a depreciated replacement cost (DRC) basis however due to the costs of implementing this change across the sector not being commensurate with the value of the benefit of the change in valuation basis this proposal has now been rejected.

Flexible use of Capital Receipts directive

In March 2016 the Department for Communities and Local Government issued statutory guidance on the Flexible Use of Capital receipts. This directive gave Local Authorities the ability to use Capital Receipts received in the year to fund expenditure incurred on projects that are designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in the future years for any of the public sector delivery partners. The Authority has made use of these new flexibilities during 2016/17 and has used £2.388m of capital receipts to fund qualifying expenditure.

Use of reserves

During the year key services such as Children's Social Care, Adults Social Care and Learning Disabilities services have had to manage considerable increases in demand. As a result there was considerable financial pressure forecast in these services and a decision was made during the year to re-prioritise some earmarked reserves to offset these financial pressures. The authority's reserves have declined and this can be seen in the following primary statements and notes to the accounts.

Southwest One

The Authority exited from a significant contract with Southwest One early, and the services delivered through this contract were brought back in-house in November 2016. The Authority expects the costs to fall significantly now it has regained control of those services.

Schools converting to Academy status

Somerset schools have continued to opt to transfer to Academy status. During the year ten schools transferred. Six schools have academy orders agreed and are likely to transfer within 2017/18 but these transfers are not likely until late summer of 2017 at the earliest. There is also one new free school due to open in September. The transfer of maintained schools to Academies continues to have an impact upon our accounting position, however academy conversions do not affect our ability to deliver services or the funding allocated to services.

Performance for the year

This year the authority continued the development of its Performance Management Framework in line with the priorities identified in the County Plan 2016-20. This has led to the development of a revised Performance 'wheel' with each segment grouped together as either one of the widely consulted on ' Peoples Priorities (P)', a measure around the effective running of the Council (C) or progress in relation to the Vision projects outlined in the revised County Plan (V).

The RAG (red, amber, green) rating of each segment and the direction of travel identifies the performance of that segment. The Planning and Performance team continue to work alongside Directors and data owners to identify the relevant measures to be included in the performance report ensuring that consistency and quality are maintained as well as relevance.

Work is underway between the Planning and Performance team and Senior Leadership Team to develop the Directors Scorecards further using a more centralised format and to ensure that the information included is in line with the County Plan, Service Plans and embed a consistent quality across all areas by identifying best practice.

Service Plans from work areas have also been updated this year, with a revised format in excel to make analysis easier.

Work has continued on developing and promoting a Value for Money culture within the authority and an action plan has been developed with a range of areas for improvement identified.

The table below summarises overall performance for Q4 of 2016/17 that is being reported to Cabinet on 14th June 2017.

Metric Segment	Number of objectives			Direction of Travel (DoT)		
	Green	Amber	Red	Up	Down	Stable
The People's Priorities	4	1	2	2	4	1
The Council	3	0	1	1	2	1
Vision Volunteers	1	0	0	0	1	0
Totals	8	1	3	3	7	2
As Percentage	67%	8%	25%	25%	58%	17%

Summary of Financial Performance

Revenue spending in 2016/17

In February 2016, the Authority agreed its budget for 2016/17 at £312.2 million. This resulted in a band-D council tax of £1,081.64 which included an increase in Council Tax of 1.99%, a special precept increase specifically for Adult Social Care of 2% and an increase to cover the responsibilities for the Somerset Rivers Authority of 1.25%. The following table shows our actual spending across our service headings. These figures are based on service responsibilities, rather than the total cost of providing services (including charges for using assets, and adjustments to show the true cost of providing pensions to employees), which is used in the income and expenditure account on page 58.

Table 1: Comparison of actual spend against budget

Service	2016/17 budget £millions	2016/17 actual spend £millions	Difference £millions	Difference %
Adults & Health - Operations	93.5	102.6	9.1	9.7
Children & Families - Operations	54.8	58.5	3.7	6.8
Learning Disabilities - Operations	28.4	28.6	0.2	0.7
Somerset Waste Partnership	27.0	26.4	-0.6	-2.2
Adults & Health - Commissioner	16.4	16.1	-0.3	-1.8
Children & Learning - Commissioning	22.3	22.5	0.2	0.9
Schools	23.1	23.1	0.0	0.0
Public Health	1.2	1.2	0.0	0.0
Highways & Traffic Management	12.1	11.2	-0.9	-7.4
Transporting Somerset - Public, FE & Concessionary	10.4	8.2	-2.2	-21.2
Other Direct Services	16.0	15.4	-0.6	-3.7
Support Services & Trading Units	31.4	31.2	-0.2	-0.6
	336.6	**345.0**	**8.4**	**2.5**
Non-service items and in year funding deficit (costs such as bank charges that cannot be linked to a particular service)	-24.4	-32.2	-7.8	32.0
	312.2	**312.8**	**0.6**	**0.2**
Funded by:				
Revenue Support Grant	-42.2	-42.2	0	
Business Rates	-61.1	-61.7	-0.6	
Council Tax	-208.9	-208.9	0	
	-312.2	**-312.8**	**-0.6**	

Capital spending in 2016/17

Alongside our day-to-day costs, the Authority spends money on assets such as buildings, roads, vehicles and information and communications technology. This is capital spending. During 2016/17 our capital spending was £144.272m (£105.993m in 2015/16). The following table gives more detail on how we spent this money.

Table 2: Major Capital Schemes

Scheme		2016/17 £millions	£millions
Economic Community and Infrastructure	Local Enterprise Partnership	27.479	
	Road Structures	26.835	
	Superfast Broadband	22.144	
	Somerset Rivers Authority	4.233	
	Street Lighting	3.549	
	Waste Vehicles	3.181	
	Other Projects	17.739	
			105.159
Children and Learning	Schools' Basic Need	16.781	
	Schools' Capital Repairs	4.401	
	General Education Provision	2.863	
	Other School Projects	1.360	
	Early Years	0.420	
	Schools' Building Improvements	0.243	
	Other Children's Services	0.946	
			27.014
Support Services	ICT Investment & Development	7.441	
	Smart Office	1.238	
	CASA/OPE	0.638	
	Other Projects	1.195	
			10.513
Learning Disabilities	Minor Works	0.885	
	LD Property Reconfiguration	0.691	
	Other Projects	0.118	
			1.694
Adults and Health	Public Health Recovery Hub	-0.023	
	Turning Point Minehead	-0.086	
			-0.108
	Total Capital Spending		144.272

Borrowing facilities

Under the Prudential Code, the Authority has set an authorised limit against which our external borrowing is monitored and managed. For 2016/17, the total approval was £429 million (next year's approval is £443 million). On 31 March 2017, the amount we owed was £346.1million (£348.5 million in 2015/16).

On 31 March 2016 £millions	Borrowing	On 31 March 2017 £millions
160.3	Public Works Loan Board (PWLB)	160.3
173.3	Other long-term loans	176.2
5.0	Other short-term loans	0.0
9.9	Other organisations investing in the Comfund (note 31)	9.6
348.5		346.1

In line with accounting practice, the Authority must show the 'fair value' of its loans. The fair value of the PWLB loan is £233.950 million at 31 March 2017 (£208.406 million at 31 March 2016). The fair value of the other long-term loans is £280.591 million at 31 March 2017 (£241.731 million at 31 March 2016).

Significant Assets & Liabilities

The Authority has a strong Balance Sheet as at 31 March 2017 (page 61) with the most significant Assets and Liabilities shown in the table below:

On 31 March 2016 £millions	Balance Sheet Extract	On 31 March 2017 £millions
869.9	Property, Plant & Equipment	903.2
223.7	Short Term Investments	180.6
39.1	Cash & Cash Equivalents	28.5
-333.6	Long term Borrowing	-336.0
-44.7	Long Term Liability - PFI/Lease	-43.7
-688.3	Long Term Liability - Pensions	-835.8
114.7	Usable Reserves	61.1
-130.5	Unusable Reserves	-249.8

Usable Reserves

On 31 March 2017 the Authority had the following reserves available:

On 31 March 2016 £millions	Reserves	On 31 March 2017 £millions
21.3	Capital reserves	3.4
9.4	Capital Grants/Contributions Unapplied Reserves	8.0
11.2	Revenue reserves set aside for capital	4.0
28.6	Other revenue reserves which we have set aside	15.3
25.5	Schools' carry-forward fund	21.3
-2.3	Services' carry-forward fund	-11.2
21.0	General reserves (see the note below)	20.2
114.7		61.0

General reserves represent just 6.5% of the 2016/17 budget. This shows that the Authority needs to continue to operate within very strict financial limits.

Future Developments & Priorities
Looking ahead to 2017/18 and the future

Economic outlook

UK economic activity remained resilient in the second half of 2016, with activity growing close to its past average rate in 2016. The Monetary Policy Committee declare growth has been stronger than envisaged in the immediate aftermath of the vote to leave the European Union with a prediction of inflation rising above the 2%. Expectations for growth have been increased to 2% for 2017, with a small decline in growth forecast of 1.6% in 2018 and 1.7% in 2019. The growth since 2012 has resulted in low unemployment rates to a current level below 5% despite the continued low pay growth.

The Bank of England's February Inflation Report indicates that inflation is expected to increase to 2.8% in the first half of 2018, before falling back gradually to 2.4% in three years' time. However, forecasts for interest rates remains low, with a predicted path rising to just under 0.75% by early 2020.

Austerity – The impact on Local Government Funding

Historic			Future	
Year	**£m**		**Year**	**£m**
2010/11	**£3m in-year**		**2017/18**	**£16m**
2011/12	**£22m**		**2018/19**	**£10m**
2012/13	**£2m**		**2019/20**	**£10m**
2013/14	**£19m**		**2020/21**	**£6m**
2014/15	**£12m**			
2015/16	**£19m**			
2016/17	**£16m**			
TOTAL	**£93m**		**TOTAL**	**£42m**

Local Government funding has been significantly affected by the government's austerity measures as spending on public services has been dramatically reduced. There have been significant changes to the funding structure through the localisation of business rates and council tax support along with further reductions to that funding. Over the period 2010/11 to 2016/17, SCC's core funding received from government reduced by £93m per annum.

The latest funding settlement was announced in December 2015. It covers the four-year period 2016/17 to 2019/20. This advises that the core funding will cease by the end of 2020/2021, with Revenue Support Grant ending, and Business Rates becoming 100% retained locally.

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

This means that local government funding is less dependent upon central government support with local authorities able to create and retain more income through generating economic growth in their area. Through the creation of new businesses and new homes, the authority is able to collect additional Business Rate and Council Tax income. However, local government shoulders much more of the risk in terms of variances in funding streams. To mitigate this, the Authority entered into a new Business Rates Pool along with Sedgemoor and Mendip following the success of the previous pool. This should provide greater resilience to any economic variations and ultimately retain more Business Rates income locally.

Tackling the funding deficit
The overall funding shortfall known as the budget gap currently projected by the Authority is £12.8m in 2018/19 and totals almost £19.5m across the next three-years with an assumption of no central funding through revenue Support Grant when it is expected that we will receive a greater share of Business Rates. The authority is also free to raise Council Tax up to 2% every year with additional ability to raise a specific precept for Adult Social Care. Medium Term Financial Plan papers can be found using the following link:

http://democracy.somerset.gov.uk/ieListDocuments.aspx?CId=134&MId=326&Ver=4

We therefore have to review the services we provide and continually challenge the ways in which they are delivered and are in constant review of options to bridge the budget gap.

Implementation of structural changes to re-scale the authority
As the authority investigates different options for service delivery models services continue to assess the staffing requirements and structures to support the on-going delivery of services to the public. Part of this assessment is the re-scaling of services to reflect the reduced workforce within the authority.

General Election
The government has called a general election on 8 June 2017. It is not clear at this stage what the result of the election will be nor is it clear what changes to government policy and legislation may be implemented, the timescale for this and the resultant impact on the authorities finances.

Devolution
Devolution is viewed by the government as the most effective way to create jobs, build homes, strengthen healthy communities and protect the vulnerable in all parts of the country. A bid was submitted to government covering the geographical area of the Heart of the South West Local (HoTSW) Enterprise Partnership, with the local authorities for Somerset, Devon, Plymouth, and Torbay along with 13 district councils, Dartmoor and Exmoor national parks, the local NHS included. Following the in-principle agreement by HoTSW local authorities to move towards a Combined Authority model the Government has changed and the EU Referendum has taken place. Both these events have had a significant impact on Government policy and in particular the approach to devolution. The Secretary of State is yet to formally clarify his position on the HoTSW devolution proposal although overall policy direction seems clearer and a proposal has been agreed by the HoTSW partners to set up a Joint Committee with a view to continue to progress the HoTSW Productivity Plan. The expectation is of significant improvements in productivity, better-paid jobs, improved road, rail and broadband links and more homes for the region's growing population. The plan would also see radical reforms to integrate health and social care that would allow the ageing population to be better looked after, tailored support for growing businesses and the creation of a centre of excellence for skills development.

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

The Statement of Accounts

The annual Statement of Accounts sets out a summary of our financial affairs for 2016/17 and shows our financial position as at 31 March 2017. It includes the following statements and accounts:

- Comprehensive Income and Expenditure Statement;
- Movement in Reserves Statement;
- Balance Sheet;
- 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 175.

Inspection and audit

The Authority made these accounts available for public inspection (from 5 June to 14 July) so that people who pay Council Tax and rates, and other members of the public, can ask the auditor any questions. This is a legal requirement, but my department will answer questions from anyone with an interest at any time. These accounts have been approved by our Audit Committee on 27 July 2017.

KB Nacey

Kevin Nacey CPFA
Director - Finance and Performance
(Chief Financial Officer)
27 July 2017

Statement of Responsibilities

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

Somerset County Council's Responsibilities

The Authority is required to:

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

The Chief Financial Officer's Responsibilities

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

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

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

The Chief Financial Officer has also:

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

The Chief Financial Officer's Declaration

This Statement of Accounts gives a true and fair view of the financial position of Somerset County Council as at 31 March 2017 and its income and spending for the year ending on that date.

K B Nacey

Kevin Nacey CPFA
Director – Finance and Performance
(Chief Financial Officer)
Somerset County Council
27 July 2017

Independent Auditor's Report

to the Members of
Somerset County Council

The audit report will appear here.

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Final Annual Governance Statement (2016/17)

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.

Regulation 6(1)(a) of the Accounts and Audit Regulations 2015, require an authority to conduct a review at least once in a year of the effectiveness of its system of internal control, and to include a statement reporting on the review with any published Statement of Accounts. Regulation 6(1)(b) of the Accounts and Audit Regulations 2015 require that for a local authority in England the statement is an Annual Governance Statement.

In England, the Accounts and Audit Regulations 2015 stipulate that the Annual Governance Statement must be "prepared in accordance with proper practices in relation to accounts". For a local authority in England this requires the statement to be in accordance with Delivering Good Governance in Local Government: Framework (2016) and the CIPFA Code of Practice on Local Authority Accounting for 2016/2017. In preparing and publishing this Statement, we therefore meet these statutory requirements. Somerset County Council has an agreed local code of corporate governance. (A copy of these documents can be obtained from Martin Gerrish, Strategic Manager – Finance Policy and Place at mgerrish@somerset.gov.uk).

Defining governance and the local governance framework

The Framework defines governance as follows:-

"Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved."

"To achieve good governance in the public sector, both governing bodies and individuals working for public sector entities must try to achieve their entity's objectives while acting in the public interest at all times."

"Acting in the public interest implies primary consideration of the benefits for society, which should result in positive outcomes for service users and other stakeholders".

The governance framework as operated locally at Somerset County Council comprises:-

i) **systems** (such as SAP, our financial system, and JCAD, our risk management system);
ii) **policies** (such as the Constitution, Standing Orders and Scheme of Delegation, HR policies); and
iii) **culture and values** (such as the 4C's, good communications, codes of conduct and the Standards Committee)

These allow 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. There is also regular review by internal and external audit, and by various inspections. At an officer level, the Governance Board has the responsibility for monitoring compliance and for continually improving governance arrangements. The Governance Board is charged by the Director of Finance and Performance, comprises a number of the Senior Leadership Team and professional leads such as legal, audit, risk and the Monitoring Officer.

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 review of internal controls provides assurance that the Statement of Accounts gives a true and fair view of the authority's financial position at the reporting date and its financial performance during the year.

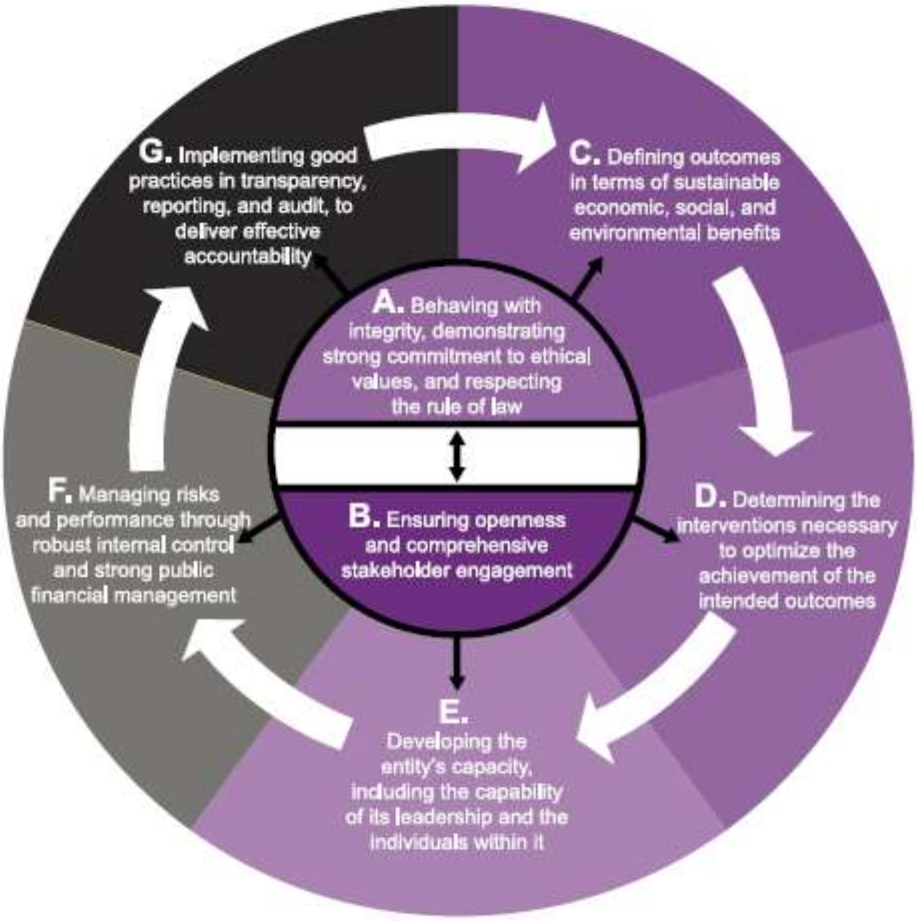
The governance framework has been in place at Somerset County Council for the whole of the year ended 31 March 2017 and up to the date of approval of the Statement of Accounts. The County Council continually seeks to improve its governance arrangements, and evidence of continued "best practice" is found within the governance reviews referred to below.

<u>Review of our governance framework</u>

Delivering Good Governance in Local Government: Framework (2016) is an update to the 2007 publication, and 2016/2017 is the first financial year for which this framework applies. Whilst there is some clear correlation with the principles set out, it has required the Governance Board to carry out a full review based on the 7 new principles and numerous sub-principles and actions, and to consider the level of Somerset County Council's compliance for each. The Framework offers examples of evidence that could be used in demonstrating compliance.

There is a substantial amount of documentation and links which underpin this review and the information contained within this statement, which can be obtained from Martin Gerrish, Strategic Manager – Finance Policy and Place at mgerrish@somerset.gov.uk.

The principles within the new Framework are set out schematically below:-



A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

Behaving with integrity

Somerset County Council has both a Members Code of Conduct and an Officers Standards of Conduct, which the respective individuals are required to adhere to. There is an intention to strengthen this by developing an Officers' Code of Conduct for future inclusion in the Constitution.

All members of the County Council are obliged to sign an "acceptance of office" template, and post-election have a full induction and training programme, including the Members Code of Conduct. This will again come to the fore as elections are held in May 2017 for the next quadrennium. The County Council also runs a "buddy" system, whereby each new member is allocated a senior officer as a point of contact for any questions or concerns that they might have, such arrangements lasting until the member is established.

Officers sign contracts of employment, and are required to complete a probationary period of employment as standard. There are a multitude of ways in which the organisation communications its expectations with its staff. The 4 C's (Care and Respect, Customer focus, Collaboration and Can Do) describe our values, which all employees are expected to work to, and we have built expected behaviours and competencies on. They form part of every member of staff's personal annual appraisal. We reinforce the importance of the 4C's through our Staff Awards, where staff are asked to nominate colleagues who have demonstrated these values in their work.

All relevant HR policies are in place, and made available from the intranet homepage. These include a formal disciplinary procedure; a Whistleblowing Policy; an Equalities Policy; a Data Protection Policy; anti-fraud, corruption, bribery and money laundering policies. We maintain a register of interests and a register of gifts and hospitality for both members and staff.

Core Brief and Members Core Brief are used to reach staff and members, and often include reminders and guidance about behaviour and conduct.

Demonstrating strong commitment to ethical values

SCC operates a Standards Committee for members, which reports regularly to the Council as the first main item of business because of the importance of standards of conduct. The Council has decided to retain a Standards Committee even though it is not a legal requirement. All formal meetings of the Council require declarations of interest from committee members as a standing item, and meetings are both minuted and recorded. There is also a member complaints policy. The Code of Conduct for Members and Co-opted Members set out in Part 2 of our Constitution makes specific reference to the need to adhere to seven principles of public life (the Nolan principles).

Respecting the rule of law

SCC's Constitution sets out our legal requirements around decision making and other constitutional arrangements, and there is significant guidance on the intranet to guide officers in ensuring that Decisions are taken by the appropriate committee, member or officer under the Scheme of Delegation. Key member roles and responsibilities are set out in the Constitution, and statutory officer posts (with appropriate Job Descriptions) are an integral part of the Council's structure.

The sign-off process for Decision reports require sign-off amongst others by County Solicitor, the Monitoring Officer, and Corporate Finance, and requires the author to set out (amongst other details) the legal implications of the proposed Decision.

An Equalities Impact Assessment must be completed for all decisions – unless the Equalities Manager has agreed otherwise. The Monitoring Officer will not sign-off reports unless the Equalities Impact Assessment has been completed and sent to Community Governance.

All contracts must be let in accordance with SCC's Contract Standing Orders, and with the guidance of specialist procurement officers in order to comply with the legal requirements such as the EU procurement regulations.

There are a number of protocols that we operate in order to create the conditions for statutory officers and members to fulfil their responsibilities, such as a Member / Officer Protocol, the Tell Local Councillor Protocol and a Protocol on Members' Access to Information and other Confidentiality Issues.

B. Ensuring openness and comprehensive stakeholder engagement

Openness

Our Constitution states that a key principle for decision-making in Somerset County Council is a presumption in favour of openness. It also details the Access to Information requirements in relation to agendas, meetings, report minutes, summary of outcomes and decision records. All Committee meetings are held in public session, with Public Question Time, unless there is an overriding need for confidentiality, which would be strictly in accordance with the appropriate regulations. The public are permitted to record our meetings, and we also keep an audio record of proceedings.

Our Key Decisions are all publically recorded, and the templates for decisions require officers to provide all necessary and pertinent information to make an informed decision. We publish our Cabinet forward plan of business, again in accordance with Access to information requirements. We have a Community Governance Website that clearly directs officers and report writers to the detailed requirements to take decisions in accordance with the Constitution.

We automatically provide a substantial amount of information on our and our partners' websites. We comply with the transparency requirements, and go through the annual assurance process to confirm that this is the case. We publish our spend information as required to do so under the regulations. We have an intention to increase the amount of data provided.

We are very open with our communications and Press Releases. We have a corporate website that provides up to date information on Council services, structure and democratic process (includes an online Newsroom). We use Press Releases and digital communications channels used to highlight progress, key decisions and developments. Our Press releases are distributed to all Somerset media and posted on website Newsroom. They are also distributed to all members. We use social media channels used to share news, such as Corporate Facebook and Twitter accounts, along with campaign/service specific accounts.

We publish a Your Somerset newspaper delivered free to all homes in Somerset on a quarterly basis. This highlights key service changes and developments, success stories and shares information to help access services.

We continue to engage with our partners, stakeholders and staff through a variety of media. We continue to run the Listening, Learning Roadshows. This is a large scale public engagement initiative, with events across Somerset, engaging on budget and priorities and current key issues. It has now been running for 4 years and has spoken to approximately 19,500 residents. Reports with the findings of these exercises are shared with Cabinet/SLT and part of the consultation package considered in budget setting process. They are also published on SCC website. Staff receive a weekly Our Somerset and a monthly Core Brief.

Engaging comprehensively with institutional stakeholders

Somerset County Council has a strong record of consultation and engagement. We have a consultation website with suitable guidance and a dedicated consultation officer. In 2016/2017 we have contributed to 66 consultations and external surveys with around

7,000 individuals engaged. We have also assisted with three internal staff surveys to the entire workforce

Some of the key consultation and engagement work carried out over the last year includes:

- Review of discretionary fares on local bus services;
- School Admission Arrangements
- Dulverton School - Change of age range
- Dunster Pavement Consultation
- People aged 5-18 who have experienced sexual abuse trauma
- Parents Childcare Entitlement consultation

We have a Partnership Register that provides a list / record of all partnerships that SCC is involved in. Partnership Lifecycle Guidance is available and refreshed on an annual basis. The guidance highlights key points to consider at each stage of the partnership lifecycle and provides links to relevant internal and external guidance and best practice.

We have an increasing number of successful fora to engage with specific stakeholder groups.

We are leading a consortium of 20 local authorities and partner organisations to ask for more powers from Government. Devolution is important to the South West and Somerset will play a leading role. This will include working towards a Combined Authority in the most appropriate form with our partners.

The partnership working with our health partners is of increasing importance in both service delivery and in shared financial efficiencies. NHS England has challenged the health and care system to develop a Sustainability and Transformation Plan (STP), which is a 5 year forward view, and Somerset County Council has been fully engaged as a full partner in the STP development process. This is to participate in the design of health and care systems in Somerset to secure better health outcomes for the residents of Somerset, and to ensure better access to appropriate services. It is also to ensure the financial sustainability of health and care services in Somerset. Our Chief Executive is the Senior Responsible Officer for the STP. There is also a Health and Wellbeing Board with its own Constitution, a Somerset Prevention Charter and a tobacco control declaration. All of these have been developed with our health partners.

There is a quarterly Voluntary, Community and Social Enterprise (VCSE) Strategic Forum with senior staff from the County Council, District Councils, Clinical Commissioning Group, and other key county-wide services to enable an exchange of information and views for the benefit of Somerset's people. Membership of the forum continues to grow and now includes Chamber of Commerce to begin to provide an important link to businesses.

In 2016 over 60 delegates attended the first Armed Forces Covenant conference with plans to run a similar event again in 2017 to coincide with Armed Forces Week. In 2016 we strengthened links with other south-west covenants which culminated in a south-west Covenant Fund bid and we are awaiting the outcome.

The Somerset Waste Partnership with all 5 Districts continues to run both waste disposal and waste collection services across the County. It has its own Joint Committee (the Somerset Waste Board), Constitution and Inter-Authority Agreement. It is still a unique undertaking nationally, and has provided substantial financial benefits to all partners and strong performance around areas such as recycling and food waste.

We undertake an annual Joint Strategic Needs Assessment (JNSA) with case studies and the outcome of consultation with specific population groups, (2017 older people, 2016 vulnerable young people). Other groups include a Carers' Forum, a Children's Stakeholders Forum, a UK Youth Parliament and an equalities group annual conference.

C. Defining outcomes in terms of sustainable economic, social and environmental benefits

Defining outcomes

SCC has very clearly defined outcomes that it has set out publically for the benefit of the residents of Somerset. The published County Plan 2016-2020 includes a Vision for Somerset and states the aims of more jobs; more homes; more powers from government; more local co-operation; better health; better education and prospects; better roads, rail, broadband and mobile signal. There is a strong commitment to the importance of adult and childrens social care.

There are also a number of longer term stated ambitions, which comprise a university for Somerset; a new market town; a major jobs boost through the creation of a business park; a significant push on energy initiatives; devolved powers from government and further joining up of our services with the NHS.

The County Plan recognises the financial challenges that the County Council faces, and seeks to bring in more funding and resources to be sustainable in the future. It seeks to remove social, economic and health equalities across the County. We recognise the need to work with our partners such as the Local Enterprise Partnership and the NHS to make our services sustainable.

Within this wider Vision, are a number of specific areas that underpin it such as our Devolution Bid that sets out the outcomes that we will deliver by 2030, the local context and our record of delivery, and the opportunities in the South West. It also sets out what central government would need to devolve in order to make this happen.

There are various processes that necessarily in place in order to ensure that we manage the change to our services and to our governance in an appropriate manner. We regularly report our progress in public on the Core Council Programme, which is the way in which we govern a number of major change initiatives that we are undertaking to improve our services. Performance information (via our Wheel) and financial information (via budget monitoring) are taken to Cabinet quarterly in order to consider the delivery of services and the financial position within the resources that are available. We have a Strategic Risk Management Strategy approved, and a risk management system (JCAD) to monitor our risks against our aims. Risk management is taken to the Audit Committee on a quarterly basis, and officers who have a responsibility for key risks have often presented their issues and mitigations in addition.

When we take decisions, such as the Learning Disabilities provider or the Medium Term Financial Plan (MTFP) process, we ensure that we not only consult, but also carry out a full equalities impact assessment, including a cumulative MTFP assessment.

Sustainable economic, social and environmental benefits

There are a number of ways in which the County Council ensures sustainable economic, social and environmental benefits through its operations, in addition to the Vision in the County Plan.

The capital programme regularly includes a number of investments that provide these benefits, such as a well-maintained highways network, provision for new schools, a substantial contribution to rural superfast broadband connectivity in the South West and a number of individual economic development projects designed to stimulate economic growth within the County such as innovation centres.

Recently, through the Somerset Waste Board, we have taken the decision to move almost entirely away from landfilling of our residual waste, and to enter a long-term contract with our waste disposal provider to establish an Energy From Waste facility instead. We have also continued to support additional recycling at kerbside, with the new Recycle More project seeking to increase the materials captured and diverted into recycling, and with other specific waste avoidance schemes.

We have already been working through our CASA project, to bring our services (and others) into the same physical location. This year we were delighted to open our first Customer Library Hub in Orchard Court, Glastonbury. This new space incorporating SCC, NHS, Mendip District Council and Citizen's Advice with an integrated Customer Service 'front desk' has been well received and praised by the local community. Not only does it save cash for reinvestment in frontline services it also makes it easier for our customers to access a range of services in one place designed around them and not the providing organisation. This work will continue, under the One Public Estate title.

When making any decisions, in accordance with our Constitution and guidance, there is a requirement to consider all impacts of the decision, and to clearly set out the reasons for the decision being made. Through our work on equalities, we make every effort to ensure fair access to services for all.

D. **Determining the interventions necessary to optimise the achievement of the intended outcomes**

Determining interventions

The Framework requires behaviour that ensures decision makers receive objective and rigorous analysis of a variety of options indicating how intended outcomes would be achieved and including the risks associated with those options. Therefore ensuring best value is achieved however services are provided. The need for feedback and stakeholders is also important.

Somerset County Council's decision making processes as set down in our Constitution meet these requirements. Either decisions are made in the appropriate committee, such as Cabinet, with papers distributed in advance or debates and decisions clearly minuted, or they are made by the appropriate officer or member through the decision-making timetables and templates. Consultations and feedback are an integral part of the County Council's decision-making processes.

It is part of our way of working that the MTFP refresh each year is presented at Scrutiny prior to Cabinet consideration. Key decisions within the MTFP are also presented to the relevant scrutiny committee before decisions are taken. The overall MTFP strategy and approach is also considered by all Scrutiny committees and Cabinet. Last year the MTFP was discussed at length at each of the three scrutiny committees twice and the approach had been presented to Cabinet both in September and again in December. The opposition and scrutiny chairs receive decision reports prior to publication as part of our governance framework. The overall scrutiny and audit framework plays a key role in shaping decisions and therefore their intended outcomes.

The County's Capital Investment Programme is included in these discussions with Scrutiny and Cabinet. There is an asset strategy group which makes recommendations to SLT and Cabinet and has three Cabinet members generally in attendance (those cabinet members with the significant portfolios of schools and infrastructure, alongside the Finance Cabinet member). The capital programme is influenced by much of the policy debate at Place Scrutiny.

In addition, on a number of occasions in the last 12 months there have been joint cabinet and CCG meetings to discuss our relative financial strategies as part of the STP work in which the Council's finances play a key role.

Planning interventions

Somerset County Council is a commissioning organisation, and its senior officer structure clearly reflects that approach with Lead Commissioner. A Commissioning Board is in place to oversee this activity, which is attended by key members of the Senior Leadership Team and by commissioning specialists.

Our intranet has specific guidance as to how we work through the commissioning cycle of Review, Analyse, Plan and Do. The commissioning plans are driven by the Medium Term Financial Plan and our commissioning intentions are built into a 'Commissioning Plan Tracker'. Individual Service Plans are then produced for the relevant managers to implement and deliver. A significant amount of work has been undertaken in 2016/2017 to align our commissioning intentions and turn them into service plans, with a new template and automated pre-population of MTFP savings and risk for greater integration and reduced duplication. Planning and MTFP timetables are also publicised.

Our Medium Term Financial Plan (MTFP) has been run on a thematic process, with an individual Senior Leadership Team member being responsible for each theme. There has been done to ensure that the MTFP is very much commissioning led across the authority as a whole, rather than run in service silos without enough regard for the wider authority's finances and services.

Our Forward Plans set out clearly the forthcoming business that will be taken to the relevant decision-making committees and by key officers and members. Somerset County Council conforms to all the relevant legislation and best practice in publishing such plans and in publishing papers ahead of such meetings.

Our Core Council Programme includes a number of built in checkpoints for individual project's business cases to ensure that they are on track. This is now a well-established process, with an in built cost model.

We have demonstrated our flexibility in-year during 2016/2017, reacting to the changing budgetary position caused by increasing demographic and service pressures within our social care services. The Chief Executive implemented a 10 point plan in order to freeze any expenditure that was not statutory, essential and time-bound in order to protect the overall financial resources available. As a result, the predicted outturn overspend was significantly reduced by the end of the financial year.

We regularly and routinely report our performance against our plans and budgets. In addition to the reports to Cabinet, each SLT Director now has an individual scorecard that summarises key performance indicators, project risks and financial information, which is discussed with the Chief Executive. The Core Council Programme has its own dashboard that is reported to the Senior Leadership Team. In light of the previous OFSTED findings and re-inspection regime, there is a fully developed reporting mechanism for children's services and QPRM papers.

Should the need arise, Business Continuity Plans have been developed and made ready. We have received Substantial assurance from the South West Audit Partnership as to the quality of this work, and are now engaged in helping partners with the same process.

Optimising achievement of intended outcomes

Our MTFP approach for this year, as described in September to Cabinet and during September Scrutiny committees, has been developed between September 2016 and February 2017 to such an extent that we have reduced forward year budget gaps significantly. Our MTFP is now seeking to find future savings of less than £20m across a 3 year period. Previously, this figure has been as high as £75m for a similar period. The management of savings over the last 5 years has all been with a clear focus from the administration on protecting the most vulnerable. This has featured in each County Plan produced and been a base from which the intended outcomes for services can be driven. Over this period our approach has been consistent. We set out to manage demand, manage costs and manage our own resources.

The themes were first presented to Cabinet back in September and have been developed further since then into the documents that went to Full Council in February. This approach has created a smaller number and a more joined up set of savings ideas that will provide a clear focus and can be resourced more easily. They will be developed into decision reports over the next few months and will then follow the normal governance process – some as Cabinet decisions, some as Cabinet member decisions and some as officer decisions. Each theme has a lead in Cabinet and in SLT. The seven themes were presented in the form of business cases making their intended outcomes much clearer than in the past when we had a long list of individual service proposals.

It is extremely difficult to balance funding with the service priorities we have. As with all other upper tier authorities, the pressures on Adult and Children's finances is intense, but the reminder of services fully understand the Council's priorities in this regard and produce excellent budget management and innovative savings proposals to meet the needs of the Council.

E. **Developing the entity's capacity, including the capacity of its leadership and the individuals within it**

Developing the entity's capacity

The Framework requires us to consider the use of our assets on a regular basis to ensure their continuing effectiveness. In terms of highways activities, there is already a requirement to management our network along principles established in the Transport Asset Management Plan (TAMP) and Highways Infrastructure Asset Management Strategy (HIAMS). Such activities, which are essential to ensure that we make the best use of our resources in maintaining the highway, are financially rewarded through the DfT Local Highways Infrastructure Incentive Fund. Our work on highways asset management was recognised at year end when the County Council was recognised a Band Three authority – the highest available - by the Department for Transport. This in effect means that we are amongst the best county councils across the country, and it gives us access to extra funding in certain circumstances.

On the property side, we continue to review our operational use of buildings, such as our work through the One Public Estate (formerly CASA) as we rationalise our assets and make them more customer focussed. Senior officers within Property regularly meet with services, such as childrens and libraries in order to review the use and opportunities of our buildings. There is an Asset Strategy Group set up in order to oversee all our assets and our capital investment programme.

Whilst the County Council has always been a member of various benchmarking groups, particular work was done in 2016/2017 to benchmark key services against other comparable local authorities and seek to understand where we can improve.

We continue to work with key partners, as set out in the County Plan and elsewhere, to combine resources, work efficiently and provide joint services to our residents. Our Performance Wheel now has a dedicated Partner Section so that we can monitor our progress in this regard.

We have published Our People Strategy. This deals with a wide range of topics such as developing the workforce's skills and capacity, managing performance, succession planning, managing absence, recruitment and retention, health and wellbeing, reward and recognition. All of these topics are considered to allow the workforce to be engaged, empowered and enabled to deliver the best services to the people. We use programmes such as the 4C's to embed these behaviours amongst our staff. The Learning Centre is a growing on-line resource for training and development purposes. There is a significant amount of HR guidance available to managers and staff on the intranet dealing with a wide range of staffing matters and policies. There is a workforce planning toolkit available.

Developing the capability of the entity's leadership and other individuals

Somerset County Council's Constitution sets out a role description for members and a Member / Officer protocol. It also sets out the legal roles of the Leader and Chief Executive and their relationship, and a high level Council and Cabinet Scheme of Delegation. The various Standing Orders and Financial Regulations of the Council are reviewed at least annually by the Full Council and in the interim by the Constitution Committee. The Cabinet and the Senior Leadership Team meet regularly to discuss forthcoming business and issues.

Following on from elections, as will happen from May 2017, there is a full member induction programme to allow all members, but particularly any new ones, to understand how the Council works and the key services that it provides. New members are allocated a "buddy", who will be a reasonable senior officer who can help with initial signposting around the County Council and be available to help address any concerns or questions arising. There is an annual member training programme and Personal Development Plans (PDPs) for each member. Ad hoc training, such as the Statement of Accounts for Audit Committee members are arranged at the appropriate point in the annual cycle. All of the member training and support occurs under the oversight of the cross party Member Development Panel.

The Constitution also sets out the rights of the public to engage with the Council and its business through access to information, access to agenda and reports of forthcoming meetings and public question time provisions at formal meetings.

The Council has previously undertaken peer review of its activities and performance, and continued to report back against the recommendations until they had been achieved. It also responded positively to previous reports, such as the establishment of a further scrutiny committee for childrens' services following the previous OFSTED inspection.

All officers will have a formal Job Description and Assignment Sheet, setting out both the general responsibilities of their grade and the specific responsibilities of their individual role. Learning is widely available through the on-line Learning Centre, and where appropriate from the central training budget held by HR in order to use across the authority. Workforce planning identifies any succession planning matters.

A number of HR policies and initiatives are in place to maintain the wellbeing of the workforce, such as Health and Wellbeing Champions, Mental Health First Aiders, Carefirst and Occupational Health.

F. **Managing risks and performance through robust internal control and strong public financial management**

Managing risk

SCC has a formal risk management policy and strategy in place, which have been endorsed by the Senior Leadership Team and the Audit Committee.

There is a quarterly Risk Management update report to the Audit Committee, which looks at the highest scoring risks and monitors the progress of mitigations that are being undertaken to reduce either the likelihood or impact of the risks. Each risk has an allocated risk owner, who has the responsibility to review the risks, and to ensure that all mitigations are completed in the appropriate timescale. Audit Committee has called in the risk owner to the public meeting where they have required further assurance as to management of the individual risk. This has been the case with the overall financial position and with health and safety, for example.

We have a dedicated risk management IT system (JCAD) to record, monitor and report on our risks. Output from this system is for the relevant managers, but it is also a key component of the officer Strategic Risk Management Group (SRMG). This group is chaired by the Director of Finance and Performance, and membership includes risk management officers, service representatives and related disciplines such as audit and insurance managers.

Our Core Council Programme, which deals with major changes across the authority and by its nature has to consider the risks arising, has its own established risk management and issues strategy as it carries out its transformational work.

Managing Performance

Cabinet receives a quarterly Council Performance Report, which provides an overview of the Council's performance across the organisation. This report provides members and senior officers with the information they need to lead and manage the performance of the outcomes set out in the County Plan and the organisation.

The report has been updated to reflect the County Plan that was adopted by Full Council in February 2016 and a review of the priorities and the performance information that contributes to them has been carried out. Appendix A of the report is the Performance Wheel, which now has seven segments which reflect the “People’s Priorities” which are widely consulted upon through the Listening Learning, Changing Roadshows. There are four “Council” segments which seek to measure how well the council manages its relationships with partners, staff and the public and how good its ‘internal management’ processes are. There is one segment that seeks to reflect the performance of the Vision Projects being undertaken by the Vision Volunteers.

The report uses a RAG status for each Wheel segment and a direction of travel (improving, staying the same or deteriorating performance). Underpinning each of the segments is a series of metrics that are used to evaluate the performance.

On the same report, Cabinet receives an update on the progress of the Core Council Programme strategic priorities through its Dashboard reporting. Each of these priorities has a Senior Responsible Owner, who is a member of the Senior Leadership Team. The Core Council Programme also has its own Core Council Board to manage the delivery.

During 2016/2017, further work was undertaken to give Directors their own scorecard to manage key performance indicators across their span of responsibilities. This is used by the Chief Executive in line management meetings with his most senior staff.

There is a Performance Management and Framework Overview available on The Learning Centre.

Work has been done during 2016/2017 on the County Council’s Value For Money statement. This is partly to consider how we will respond to the external audit requirements on this subject, but also to confirm how Somerset will demonstrate its commitment to VFM.

SCC operates a total of 3 separate Scrutiny Committees, having added another committee specifically to improve member capacity on childrens’ services following the previous OFSTED inspections. These are public meetings, and the terms of reference for Scrutiny are set out in our Constitution and reviewed at least annually.

Financial performance is also taken quarterly to Cabinet in budget monitoring reports co-ordinated by Corporate Finance, who provide any necessary guidance, and prepared on the same basis as the Statement of Accounts.

Robust internal control

Our internal audit work is closely aligned with our risk management processes. Any internal audit report that only achieves “Partial” assurance is logged onto the JCAD system and all risks identified within Partial audits are tracked. Only when a Follow Up audit confirms that the management actions have been completed will the Partial audit be closed on JCAD. In addition, the recipient of a Partial audit is required to attend Audit Committee to explain to members how they are addressing the agreed actions arising out of the audit. To ensure that this was achieved, additional Audit Committee meetings were arranged in 2016/017 at the direction of the members.

SCC’s Audit Committee is very active, and in addition to the usual role of “those charged with governance” such as approving the Statement of Accounts, has received a number of Service Showcases (such as Business Continuity and IT) to consider the progress and performance of these important functions. Our external auditor has previously commented very positively on the engagement and effectiveness shown by the Audit Committee.

Our internal audit function is provided by the South West Audit Partnership (SWAP). SWAP is a public sector not-for profit company that is wholly owned by a number of local authorities who have joined together to pool resources and share expertise. There is an increasing number of other public sector organisations joining SWAP as partners, providing further resources and skills to its already well-trained and qualified staffing. SWAP complies with all statutory requirements, and all best practice, such as that laid down in the Public Sector Internal Audit Standards. Peer reviews are used to provide an independent assessment of SWAP's processes. SWAP has recently won the inaugural innovation in audit award at a national Public Finance event. Judges commented that

"We really liked the Healthy Organisation themed reviews and behavioural model, which tackled important issues around assurance fatigue and systemic failure. It also demonstrated the benefits of a partnership, but firmly grounded in each organisations governance approach."

Our working relationship with SWAP is contained with an Internal Audit Plan and a Charter. These, together with our internal audit strategy, are worked up with SWAP contacts, SCC's audit lead and senior officers before being approved by the Audit Committee. Resources are specifically targeted at areas of greatest risk.

SCC has a robust Anti-Fraud and Corruption policy, with an absolute zero tolerance approach towards fraud. There are also subsidiary policies on Bribery and Money Laundering. All policies and work on fraud are reviewed annually. SCC participates fully in the National Fraud Initiative with other local sector organisations, to share data to catch fraudulent activity, and has recently reviewed its fraud provisions in relation to CIPFA's Compliance with the Code of Practice on Managing the Risk of Fraud and Corruption. SWAP has a number of officers who are trained fraud specialists for any necessary investigation. The Internal Audit Plan has a resource available for fraud and governance guidance and reactive work.

Managing Data

SCC has its own Information Governance Board, which approves and monitors policy, risks, issues and security incidents. The Information Governance Manager is the designated Data Protection Officer. There is a comprehensive framework of Information Governance Policy that includes, Data Protection, ICT Acceptable Use, Monitoring and Surveillance, Data Breach Reporting and Communication. SCC is registered with the Information Commissioner's Office and is both PSN and NHS IG Toolkit compliant. All employees receive both induction and annual refresher information governance training. Items on this topic are also included in Core Brief.

SCC has overarching Information Sharing Protocols with our principle partners the NHS and the Police. We also have a number of Information Sharing Agreements with our other public sector partners to ensure the effective efficient and secure sharing of information. A register is maintained to ensure these agreements are kept up to date. When data is processed by a private sector body contracts include relevant data protection, confidentiality and FOI clauses to ensure secure data processing.

Services collecting, processing reporting information run regular audit procedures against their data to ensure accuracy for both the delivery of services to the public and for the planning and commissioning of services. Wherever possible this data is validated by review meetings with individual clients and comparisons with independent data sources. Key client databases have in-built validation procedures to ensure data quality is as good as possible at point of being recorded. This is further supported by a suite of validation reports that identify issues/gaps with data and these are accessed by both operation staff and support staff.

Strong public financial management

Our Finance service is fully staffed. Key posts are filled with suitably qualified and experienced staff. Subject matter experts are employed in key technical posts such as insurance, pensions and treasury management. Continuing Professional Development (CPD) is supported as resources permit, and we have run our own CPD sessions previously and plan to do so again.

Financial updates are regularly reported to Cabinet, and where appropriate to other committees such as Audit Committee. This includes regular budget monitoring and outturn reports, plus updates on our Medium Term Financial Planning (MTFP). All decision papers (for committees, Cabinet member or senior officer delegated decisions) require financial sign-off before the decision can be taken. Finance officers provide support to transitional work under the Core Council Programme.

All expected financial policies and procedures are in place, and subject to review as appropriate. Our financial system, SAP, has all the relevant division of duty controls in ordered and expenditure, and there is a hierarchy of financial delegations, with only the most senior officers being able to commit SCC to significant expenditure. We have a strong track record of recovering monies owed to the County Council.

Our MTFP processes are critical, and we have a commissioning and theme-based approach to finding efficiencies (such as in procurement), alternative service delivery methods and generating income in order to balance our books.

We have received positive feedback from both internal and external auditors in their specific statutory roles. The Internal Audit Plan has resources allocated to looking at financial systems and processes within SCC. There is a strong track record in previous internal audit reports, with Substantial or Reasonable assurance regularly achieved from this independent reviewer. The external audit reports regularly to the Audit Committee and has regularly commented positively on SCC having the appropriate financial controls in and the appropriate stewardship and leadership in place to be effective.

G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

Implementing good practice in transparency

Somerset County Council routinely publishes a large amount of information about itself and its activities. Our performance reports are published on our websites, and we distribute Your Somerset free of charge to our residents. As expected, we have a transparency site to comply with the relevant legislative requirements to publish both spend and certain categories of information. This is reviewed at the Governance Board.

Committees meet in public session unless there is a statutory need for a confidential item to be considered. Agendas are published on our website in advance of each meeting. We have recently implemented MODGOV software, which makes it easier to follow background papers for agenda items and decisions made in one place.

Implementing good practices in reporting

A number of reports are produced that set out our activities and inform the organisation, residents and stakeholders as to our progress. The Leader's report is taken to Full Council for information and for the Council to consider the Cabinet recommendations where necessary. There are also regular reports from the Monitoring Officer, section 151 officer and County Solicitor as and when required. There is also a requirement for the Chair of each Committee to take an Annual Report to Council to update on their work during the previous year.

All decision making reporting follows an approach that requires such decisions to be taken by an appropriate committee, member or senior officer, and requires sign-off by finance, legal, HR and the Monitoring Officer. There is a need to consult or inform relevant members ahead of the decision being taken. Our Cabinet Member and officer Key Decision reports are published.

We report back on the staff survey results, and particularly where these have been implemented. This is on our website on the "You said, we did" pages. We publish our Staff Survey results in full, such as the June 2016 Staff Engagement Survey. We also report back through Core Brief and through management teams to staff.

In our Statement of Accounts, we include a narrative on the financial position and on challenges that the County Council is facing. We always include the Annual Governance Statement alongside the Accounts for the period that they both represent.

Assurance and effective accountability

As above, we report on all Partial internal audits received from the South West Audit Partnership, and the relevant managers are required to attend Audit Committee to explain what actions they are taking in order to address the audit report's findings. Any internal audit report that achieves Partial (or No Assurance) automatically receive a Follow Up audit to check on progress. Only the auditor can close an audit, and only when they are satisfied as to completion of actions.

Would we to receive any corrective action required by the external auditor through the Accounts process, we would report back our progress through the Audit Committee public meetings.

Where we have had Peer Reviews in the past, we have had a public action plan to make any recommended improvements, which remained open and was regularly reported on until actions were completed.

Officers have Job Descriptions that set out corporate and individual responsibilities for their role, and there is a Constitution Scheme of Delegation that sets out what powers and responsibilities fall to which committee, individual member or officer. Our Governance Board has, as part of its remit, the role of sounding board and advice to the Monitoring Officer (or other officers as required) in considering any potential issues that he (or they) are obliged to investigate. There is a Standards Board for members.

When we report progress, such as the Core Council Programme, we include the names of the responsible officers, who are to ensure delivery of that particular initiative. We follow project management principles throughout this Programme.

The Role of the Chief Financial Officer

In June 2016, CIPFA published an updated CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2016). We are obliged to include a specific statement on whether the authority's financial management arrangements conform to the 5 governance requirements of this CIPFA Statement, and, where they do not, to explain why and how they deliver the same impact.

Statement	SCC response
The Chief Finance Officer in a public service organisation:	The Director of Finance and Performance at Somerset County Council:
1. is a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest	1. is a member of the Senior Leadership Team attending all SLT meetings, reporting directly to the Chief Executive. 2. is a member of both Commissioning Board and Governance Board 3. has overall responsibility for the MTFP and financial strategy and reports regularly to Cabinet and Council
2. must be actively involved in, and able to bring influence on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the organisation's financial strategy	1. is (or is through his appointed representative) on all major officer groups and committees such as OFSTED, Learning Disabilities, SWB 2. has financial sign off of all Key Decisions before they can be implemented 3. is a member of SRMG and attends Audit Committee 4. signs off all grant terms and conditions before they can be accepted
3. must lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.	1. has sole authority for Financial Regulations, Financial Procedures, the Income Code of Practice and all underlying policies and procedures 2. has overall responsibility for the internal audit function and plan 3. has management responsibility for the VFM work in the Performance team
4. must lead and direct a finance function that is resourced to be fit for purpose	1. has a finance structure in place with suitably qualified and experienced individuals in all senior positions 2. chairs a Finance Management Team of Strategic and Service Managers to give direction and to shape financial plans
5. must be professionally qualified and suitably experienced	1. is a CIPFA qualified accountant, with experience across a wide range of

	financial disciplines 2. is an active member of the Society of County Treasurers and is a spokesperson for waste, environmental and growth issues

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. This has been undertaken by the officer Governance board, which is chaired by the Section 151 Officer. This review of effectiveness is informed by a number of pieces of evidence, which have included:-

- the detailed work undertaken to answer the 7 new principles and numerous sub-principles and actions under the new governance Framework, and the evidence provided from a wide variety of managers and subject matter experts
- the Healthy Organisation report commissioned from the South West Audit Partnership to review all key elements of governance at Somerset County Council
- the Internal Auditor's proposed annual opinion report for 2016/17
- officers' views on the effectiveness of the internal audit function through a review taken to Audit Committee annually in line with the new Public Sector Internal Audit Standards
- external auditors' comments as part of their Statement of Accounts and Value For Money audits, including their positive assessment of internal audit
- the work and effectiveness of the Audit Committee itself, as summarised in its annual report to Full Council
- the comments received in relation to the positive progress being made in response to the previous OFSTED inspections
- comments from other review agencies and inspectorates
- a review of the work undertaken by the Governance Board over the previous financial year, including its widened membership and terms of reference
- the work undertaken on the Value For Money framework
- individual knowledge of individual Governance Board members
- quarterly reports to the Audit Committee relating to risk management and key risks presented

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

The internal auditor has reported on her Annual Opinion of 2016/2017, which is a key source of assurance for the Annual Governance Statement. She can offer "Reasonable Assurance" in respect of the areas that SWAP have reviewed during the year, as most were found to be adequately controlled.

There have been a number of individual audits that have only achieved "Partial Assurance" in 2016/2017, but this is accepted because our Internal Audit Plan strategy specifically directs audit resources to areas that management consider are riskier in nature and require strengthening.

The auditor has commented that the senior management response to SWAP's findings is generally very good. The process has been greatly enhanced by Audit Committee's "calling in" of "Partial Assurance" audits and the monitoring on JCAD of all risks deemed Medium/High or High. In her opinion, this demonstrates effective control and governance.

A formal report and opinion from the internal auditor came to the Audit Committee on 29th June.

The Audit Committee itself, acts as "those charged with governance". The Committee meets regularly, considers a wide range of business to seek assurance, and has been confirmed as "effective" by the external auditor.

Officers have concluded that there are effective measures in place to deliver governance as set out in the Framework. It is acknowledged that no framework can be entirely complete and effective, and that all governance arrangements need to be monitored to ensure that they are still fit for purpose and also that they are adhered to.

Where the review has suggested a possible improvement to our governance, this has been considered by the Governance Board and as a result officers will draw up an Action Plan to be agreed by Audit Committee and monitored during the forthcoming financial year to ensure delivery. This is in accordance with the CIPFA Code of Practice.

Significant governance issues

There is an expectation that an Annual Governance Statement is also forward focussed in that it considers governance issues that Somerset County Council will need to address as it carries out its functions in the forthcoming financial year.

The work done by the South West Audit Partnership under the Health Organisation audit provides a valuable basis for reviewing our governance processes across a wide range of support services in particular. Each finding contained within this audit has a response and an owner to address the audit finding in the forthcoming financial year. It is planned that the Healthy Organisation audit is repeated in early 2018/2019. Effectively, this provides the basis for an Action Plan on governance issues, to be monitored by the Governance Board in the first instance.

Overall, the Healthy Organisation audit and work done in response to the Delivering Good Governance in Local Government: Framework provided a positive reflection of our current governance arrangements.

The financial position remains of concern, despite additional monies received for the BCF. A balanced budget has been set for 2017/2018, and the reserves available to us for 17/18 are at the same level as the previous year, taking into account the Council Tax surplus. However, as the Revenue Support Grant reduces to nil over the next 2 years, and with the growing pressures of the significant financial pressure from demographic growth in social care, from additional statutory duties and from legislation such as the minimum wage, members and officers alike both acknowledge the need for careful financial planning and further savings to be delivered.

There is further financial uncertainty over how Brexit may impact on the County Council.

The role of the Core Council Programme and our commissioners to effect changes to our services will be critical as a result. We remain a commissioning led organisation and will continue to seek the most effective, efficient and economical way of delivering services to our residents and visitors, regardless of provider.

The importance of continued economic development across Somerset remains, not least because of the forthcoming switch to local retention of business rates. Support for economic development is being delivered in a number of ways – through Hinkley, through enhanced broadband provision under the Connecting Devon and Somerset project, and through individual opportunities to attract business growth to Somerset.

There are a number of specific examples of where the County Council will need to demonstrate good governance in delivering specific future services and plans, often in partnership arrangements. Some of the key ones are:

Sustainability and Transformation Plan (STP)

Somerset County has been defined as the local STP footprint and the lead health agencies (CCG, Taunton and Somerset NHS Trust, Yeovil District Hospital Trust, Somerset Partnership NHS Trust) have been charged with developing the STP. Throughout the NHS have sought to ensure that the STP has a health and social care focus. The Chief Executive has been leading the STP programme and the SCC Leadership team are heavily engaged as a full partner in the STP development. Governance issues that need to be addressed will include the pooling issue for budgets and the decision-making powers of whatever entity is created to provide health and social care, specifically how members of the Health and Well-Being Board and Cabinet can influence decisions affecting Somerset residents.

http://democracy.somerset.gov.uk/documents/g261/Public%20reports%20pack%2021st-Nov-2016%2010.00%20Cabinet.pdf?T=10

OFSTED

Following the 'Inadequate' judgement from the Ofsted Inspection carried out between 20 January 2015 and 11 February 2015, the Secretary of State, in May 2015, instructed SCC to work with officials at Essex County Council, as "the Department's advisers".

Much work has been done since that time, with regular reports to Cabinet and Scrutiny. As part of the monitoring arrangements for the DfE Quarterly Performance Review Meetings (QPRM), Children's Services have met all the requirements of the Direction to the satisfaction of the DfE Advisors (Essex County Council). Following reports from the DfE advisors, the Minister of State for Vulnerable Children and Families has confirmed in December 2016 that there has been "significant improvement" in Somerset's Children's Services, including more manageable case-loads, a more stable workforce and better partnership working. The Minister noted that these changes have led to tangible improvements in social work practice, resulting in children and families receiving a considerably better service than previously.

We await the Ofsted re-inspection with dates not yet known.

Learning Disabilities

The contract between Dimensions UK Ltd, Discovery SCBV and Somerset County Council commenced on April 1st 2017. This was the culmination of a long procurement process that has seen the workforce of over 1,000 staff in our Learning Disabilities service transferred to a social enterprise. The decision to transfer the LDPS emerged from the need to make significant changes to the way that the service is delivered. The current, in-house, service had become increasingly unsustainable, less competitive and had a number of poor physical environments. Some of the service provision did not readily support positive integration of people with a learning disability within their broader community and in essence segregates them. The service was also limited in the range of support provided. The service needed to modernise and in order to be both attractive to future customers and provide a modern range of support as well as ensuring sustainability the service needs to address its major cost element which is staff costs.

Heart of the South West Local Enterprise Partnership

During 2016/17, the Heart of the South West Local Enterprise Partnership (HoTSW LEP) was awarded £56.7m Growth Deal funding from the Government's Local Growth Fund, a fund set up to fund projects that benefit local areas and economies. DCLG paid the monies to Somerset County Council as the accountable body for the Local Growth Deal.

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

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

Pat Flaherty
Chief Executive
July 2017

David Fothergill
Leader of the Council
July 2017

Statement of Accounting Policies

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

1 General

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

The Authority has produced these accounts on the basis of CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, based on International Financial Reporting Standards.

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

2 The difference between Capital and Revenue

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

3 Accruals of Income and Expenditure

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

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

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

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

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

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

- The Authority is under pressure from central government to report the Statement of Accounts earlier. Therefore a minimum of £5,000 accrual limit was applied to improve the efficiency of the closing of accounts.

4 Cash and Cash Equivalents

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

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

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

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

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

6 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.

7 Charges to Revenue for Using Assets

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

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

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

8 Employee Benefits

Benefits Payable during Employment

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

Termination Benefits

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

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

Post Employment Benefits

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

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

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

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

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

These schemes provide defined benefits to members (retirement lump sums and pensions), earned through employment in the Authority. However, the arrangements for the Teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Authority. The scheme is therefore accounted for as if it was a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The

Individual Schools Budget line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

The Local Government Pension Scheme

The Local Government Pension Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Somerset County pension fund attributable to the authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate of 2.8% (based the annualised yield at the 20 year point on the Merrill Lynch AA-rated corporate bond yield curve)

- The assets of the Somerset pension fund attributable to the authority are included in the Balance Sheet at their fair value:

  - quoted securities – current bid price
  - unquoted securities – professional estimate
  - unitised securities – current bid price
  - property – market value

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The change in the net pensions liability is analysed into the following components:

- Service cost comprising:

  - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked

  - Past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.

  - Net interest on the net defined benefit liability (asset), i.e. net interest expense for the authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

- Remeasurements comprising:

  - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

  - 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 – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

  - Contributions paid to the Somerset County pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement 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. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Further details on the Local Government Pension Scheme can be found in note 51.

9 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.

10 Financial Instruments

Financial Liabilities

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

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

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

Financial Assets

Financial Assets are classified into two types:

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

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

Loans and Debtors

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

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

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

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

11 Fair Value Measurement

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

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

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

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

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

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

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

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

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

Level 3 – unobservable inputs for the asset or liability.

The Authority will review, on an annual basis, the fair value of its non-financial assets. In doing so, it will consider the most accurate and appropriate inputs to determine the fair value of these assets. This may on occasions lead to a change in the overall hierarchy. Details of these transfers shall be disclosed in Note 29.

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

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

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

13 Leases

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

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

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

The Authority as Lessee

Finance Leases

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

Lease payments are apportioned between:

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

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

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

Operating Leases

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

The Authority as Lessor

Finance Leases

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

Lease rentals receivable are apportioned between:

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

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

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

Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease).

Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

14 Property, Plant and Equipment (PPE)

Property, plant and equipment are assets with a physical substance that are held for use in the provision of services; for rental to others; for administrative purposes; will be used during more than one financial year and meet the IAS16 recognition criteria. However, the Authority charges certain lower value items that have an expected life of more than one year to revenue in the year we buy them.

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

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

Recognition

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

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

Measurement

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

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

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

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

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

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

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

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

Depreciation

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

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

IT and other equipment	4-7 years
Software	5 years
Software licences	25 years

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

Componentisation

Where a high value asset, for example a building, includes a number of components with significantly different asset lives, the Authority is required to identify and depreciate the components separately from the main asset. This additional analysis is only required for assets that we deem 'significant', so we are required to set a materiality threshold to assist with the identification of such assets. For 2016/17, the Authority has set a materiality threshold of £1.5 million for individual assets and a significance level for separate components of 20% of the whole asset's original cost. Consideration of componentisation is only required for assets that meet these two criteria. This is the minimum requirement (as defined by the Code) but services may choose to apply componentisation for assets below this threshold if it assists with asset planning.

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

Impairment

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

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

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

15 Intangible Assets

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

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

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

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

16 Heritage Assets

FRS102 defines a heritage asset as one with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. The Code offers further interpretation of this definition, stating that heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations and held by the reporting entity in pursuit of its overall objectives in relation to the maintenance of heritage.

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

Operational heritage assets have always been shown in the Balance Sheet under their appropriate classifications. These assets continue to be shown in this way and carried in accordance with the other asset accounting policies set out herein. FRS102 does not apply to such assets.

Heritage assets (other than operational heritage assets) are measured at a valuation in line with FRS102. The standard states that the valuation may be made by any method that is appropriate and relevant. For the majority of the Authority's collection, neither cost nor valuation information can be obtained (as the cost of obtaining the valuations would be disproportionate in terms of the benefit derived). Where items have been purchased cost information is available. We are of the opinion that we will be unable to revalue these purchased items with sufficient reliability (at a cost commensurate to users of the financial statements).

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

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

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 Accounting for Schools

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

- Community, including PRUs (of which there are 80 within our boundary);
- Voluntary controlled (62 within our boundary);
- Voluntary aided (34 within our boundary); and
- Foundation (8 within our boundary).

The remaining type of state school, an Academy, (of which there are 78 within our boundary) receives its funding direct from Central Government.

Schools Non-Current Assets

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

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

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

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

For those properties, where neither a freehold nor leasehold interest exists we have deemed there to have been a mere licence granted by the legal owners (in most cases a religious body). As a mere licence passes no interest to the Authority or the schools governing body, and are terminable at any time without causal action (although Section 30 (11) of the School Standards and Framework Act 1998 provides that a reasonable period of notice, usually 2 years, be given), we are required to consider whether we hold any other substantive rights.

Under the CIPFA Code of Practice for Local Authorities, only a resource 'controlled' by the Authority meets the definition of an asset, and as the mere license passes over no rights to the Authority it is not possible for us to record a non-current asset on the Authority's balance sheet for schools where such a licence exists. Any subsequent expenditure incurred in relation to schools that have not been recognised is expensed through the Comprehensive

Income and Expenditure Statement as revenue expenditure funded from capital under statute (REFCUS) in the year it is incurred (see Accounting Policy 22 for further details).

Schools revenue transactions

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

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

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

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

19 Provisions

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

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

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

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

20 Contingent Liabilities

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

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

21 Reserves

The Authority sets aside specific amounts in reserves for future policy purposes or to cover contingencies. 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 drawn down to fund the expenditure so there is no net charge against Council Tax for the expenditure.

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

22 Revenue Expenditure Funded from Capital Under Statute (REFCUS)

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

23 Private Finance Initiative (PFI) and Similar Contracts

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

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

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

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

24 Value Added Tax

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

25 Overheads and Support Services

The costs of overheads and support services are charged to service segments in accordance with the authority's arrangements for accountability and financial performance.

26 Inventories

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

27 Foreign Currency Translation

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

28 Events after the Balance Sheet Date

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

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

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

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

29 Flexible Use of Capital Receipts

Under generally accepted accounting principles, a capital receipt may only be used to fund capital expenditure or repay debt. However, the Local Government Act 2003, section 15(1) requires a local authority to have regard to such guidance as the Secretary of State may issue. During 2016/17, a Capitalisation Directive was issued on the flexible use of capital receipts, providing local authorities with the flexibility to spend receipts from asset sales on the revenue costs of reform projects. The direction applies to capital receipts received during the period 1st April 2016 to 31st March 2019.

Under the directive, we can only use capital receipts from the disposal of property, plant and equipment assets received in the years in which this flexibility is offered. We are not able to use existing stock of capital receipts to finance the revenue costs of reform.

The amounts funded from capital receipts under this direction during 2016/17 can be found in the Adjustments between accounting basis and funding basis under regulation note to the accounts (page 77).

30 Council Tax and Non-Domestic Rates

In Somerset, the District Councils (as billing authorities) act as agents, collecting council tax and non-domestic rates (NDR) on behalf of ourselves and other major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

Accounting for Council Tax and NDR

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is our share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in our General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement. The Balance Sheet includes our share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

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 both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

31 March 2016 (Restated) £millions Expenditure	31 March 2016 (Restated) £millions Income	31 March 2016 (Restated) £millions Net	Comprehensive Income and Expenditure Statement for the year ended 31 March 2017	31 March 2017 £millions Expenditure	31 March 2017 £millions Income	31 March 2017 £millions Net	Notes
			Continuing Operations				
170.293	-74.462	95.831	Adults and Health - Operations	167.828	-63.828	104.000	6
61.281	-2.453	58.828	Children & Families - Operations	62.729	-2.447	60.282	6
36.144	-2.753	33.391	Learning Disabilities - Operations	36.837	-3.494	33.343	6
46.638	-19.318	27.320	Somerset Waste Partnership	46.049	-19.163	26.886	6
20.712	-1.948	18.764	Adults and Health - Commissioner	18.216	-1.172	17.044	6
75.555	-50.489	25.066	Children & Learning - Commissioning Central	78.808	-49.958	28.850	6
36.086	-3.103	32.983	Highways	36.934	-0.961	35.973	6
19.945	-18.824	1.121	Public Health	23.518	-22.638	0.880	6
85.418	-47.914	37.504	ECI Other Services	94.687	-58.545	36.142	6
44.984	-8.249	36.735	Support Services & Other Corporate Spending	52.467	-8.065	44.402	6
218.744	-204.789	13.955	Individual Schools Budget	221.059	-202.300	18.759	6
815.800	**-434.302**	**381.498**	**Surplus (-) / Deficit on Continuing Operations**	**839.132**	**-432.571**	**406.561**	
3.644	-	3.644	Other operating expenditure	13.900	-	13.900	12
52.131	-9.504	42.627	Financing and investment income and expenditure	51.360	-9.303	42.057	13
2.016	-2.400	-0.384	Discontinued operations	-	-	-	6
-	-377.095	-377.095	Taxation and non-specific grant income	-	-390.957	-390.957	14
873.591	**-823.301**	**50.290**	**Surplus (-) or Deficit on Provision of Services**	**904.392**	**-832.831**	**71.561**	
		-20.372	Surplus (-) or Deficit on revaluation of non-current assets			-16.680	15
		-89.119	Remeasurement gains (-) / losses on pension assets/liabilities			118.163	51
		-109.491	**Other Comprehensive Income and Expenditure**			**101.483**	
		-59.201	**Total Comprehensive Income and Expenditure**			**173.044**	

Movement in Reserves Statement

The Movement in Reserves Statement shows the movement from the start of the year to the end on the different reserves held by the authority, analysed into ‘usable reserves’ (i.e. those that can be applied to fund expenditure or reduce local taxation) and other ‘unusable reserves’. The Statement shows how the movements in year of the authority’s reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax (or rents) for the year. The Net Increase/Decrease line shows the statutory General Fund Balance movements in the year following those adjustments.

Movement in Reserves Statement For the years ended 31 March 2016 & 2017	Note	General Fund (inc. Earmarked Reserves) Balance £m	Capital Receipts Reserve £m	Capital Grants & Contributions Unapplied £m	Total Usable Reserves £m	Unusable Reserves £m	Total Authority Reserves £m
Balance as at 1 April 2015	42/43	**106.048**	**23.787**	**12.235**	**142.070**	**-217.002**	**-74.932**
Movement in Reserves during 2015/16							
Surplus or deficit (-) on provision of services		-50.290	-	-	-50.290	-	-50.290
Other Comprehensive Income and Expenditure	15/51	-	-	-	-	109.491	109.491
Total Comprehensive Income and Expenditure		**-50.290**	**-**	**-**	**-50.290**	**109.491**	**59.201**
Adjustments between accounting basis & funding basis under regulations	10	28.247	-2.446	-2.847	22.954	-22.954	-
Increase/Decrease (-) in Year		**-22.043**	**-2.446**	**-2.847**	**-27.336**	**86.537**	**59.201**
Balance as at 31 March 2016 carried forward	42/43	**84.005**	**21.341**	**9.388**	**114.734**	**-130.465**	**-15.731**
Movement in Reserves during 2016/17							
Surplus or deficit (-) on provision of services		-71.561	-	-	-71.561	-	-71.561
Other Comprehensive Income and Expenditure	15/51	-	-	-	-	-101.483	-101.483
Total Comprehensive Income and Expenditure		**-71.561**	**-**	**-**	**-71.561**	**-101.483**	**-173.044**
Adjustments between accounting basis & funding basis under regulations	10	37.188	-17.936	-1.378	17.874	-17.874	-
Increase/Decrease (-) in Year		**-34.373**	**-17.936**	**-1.378**	**-53.687**	**-119.357**	**-173.044**
Balance as at 31 March 2017	42/43	**49.632**	**3.405**	**8.010**	**61.047**	**-249.822**	**-188.775**

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NB/ The Earmarked Reserve & General Fund balances have been consolidated into one column from 1st Apr15. Further details of the individual balances can be found in Note 42.

Balance Sheet as at 31 March 2017

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

31 March 2016 £millions	Balance Sheet as at 31st March 2017	31 March 2017 £millions	Notes
869.861	Property, Plant & Equipment	903.152	25
1.934	Heritage assets	1.934	32
1.373	Intangible Non-Current assets	5.563	26
10.181	Long term investments	15.129	34
22.404	Long term debtors	20.978	34
905.753	**Long term assets**	**946.756**	
223.657	Short term Investments	180.592	34
0.827	Assets held for sale	0.211	28
7.348	Inventories	7.588	36
43.962	Short term debtors	63.945	37
39.131	Cash and cash equivalents	28.465	44
314.925	**Current Assets**	**280.801**	
-74.181	Short term creditors	-88.914	38
-1.709	Revenue Grants/Contributions Receipts in Advance	-1.751	41
-41.011	Capital Grants/Contributions Receipts in Advance	-44.980	41
-0.018	Long term borrowing repayable > I year	-0.442	34
-7.891	Provisions	-8.386	40
-14.913	Short term borrowing	-9.665	34
-1.634	Overdraft	-	44
-141.357	**Current Liabilities**	**-154.138**	
-0.298	Provisions	-0.342	40
-333.621	Long term borrowing repayable > I year	-336.030	34
-733.081	Other long term liabilities	-879.493	39
-5.290	Revenue Grants/Contributions Receipts in Advance	-5.938	41
-22.762	Capital Grants/Contributions Receipts in Advance	-40.391	41
-1,095.052	**Long term liabilities**	**-1,262.194**	
-15.731	**Net Assets**	**-188.775**	
114.734	Usable reserves	61.047	42
-130.465	Unusable Reserves	-249.822	43
-15.731	**Total Reserves**	**-188.775**	

KBNacey

Kevin Nacey CPFA, Director – Finance and Performance
27 July 2017

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’.

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.

2015/16 £millions		2016/17 £millions	Notes
50.290	Net surplus (-) or deficit on the provision of services	71.561	
-103.445	Adjustments to net surplus or deficit on the provision of services for non cash movements	-83.847	45
86.003	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	108.054	45
32.848	Net cash flows from Operating Activities	**95.768**	45
1.568	Investing Activities	-90.061	46
-4.683	Financing Activities	3.325	47
29.733	**Net increase (-) or decrease in cash and cash equivalents**	**9.032**	
67.230	**Cash and cash equivalents at the beginning of the reporting period**	**37.497**	
37.497	**Cash and cash equivalents at the end of the reporting period**	**28.465**	44

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

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

Notes to the core financial statements

Note 1: Prior-period adjustments

Comprehensive Income & Expenditure Statement – New Format

From 2016/17, we are required to report our service segments based on the way in which we operate and manage our services. There is no longer a requirement for that service analysis to be based on the definition of total cost or the service expenditure analysis in the Service Reporting Code of Practice in the financial statements. This new format means that the service section of the Comprehensive Income and Expenditure Statement supports accountability and transparency as it reflects the way in which services operate and performance is managed.

As this adjustment represents a change in accounting policy there is a further requirement for us to restate the 2015/16 comparatives under the new format. The service headings that provide the analysis of expenditure and income that makes up the Surplus/Deficit on Continuing Operations in the 2016/17 Comprehensive Income & Expenditure Statement (page 58) have changed to meet the new requirements.

The following notes show how the gross expenditure; gross income and net expenditure have been restated. As the new format includes a service line for Support & Other Corporate Services, the total 15/16 comparatives for both income and expenditure have changed, as these costs are now being reported as gross expenditure and income rather than as a combined net apportionment cost. However, the final deficit position for continuing operations remains unchanged when compared to the 15/16 position reported in last year's accounts.

Gross Expenditure	As reported in the Comprehensive Income & Expenditure Statement 2015/16 £millions	Adjustments between SERCOP classifications and internal reporting classifications £millions	As restated 2015/16 £millions	Directorate
Continuing Operations				
Central services to the public	4.666	-4.666	-	
Cultural and related services	18.681	-18.681	-	
Library book stock recognition (Material Item)	-6.041	6.041	-	
Environmental and regulatory services	55.361	30.057	85.418	ECI Other Services
Planning services	38.246	-38.246	-	
	-	46.638	46.638	Somerset Waste Partnership
Education and children's services	379.074	-160.330	218.744	Individual Schools Balances
	-	61.281	61.281	Childrens & Families - Operations
	-	75.555	75.555	Children & Learning - Commissioning Central
Highways and transport services	61.465	-25.379	36.086	Highways
Housing services	6.301	-6.301	-	
Adult social care	228.680	-58.387	170.293	Adults & Health - Operations
	-	20.712	20.712	Adults & Health - Commissioner
	-	36.144	36.144	Learning Disabilities - Operations
Public Health	19.014	0.931	19.945	Public Health
Corporate and democratic core	4.073	40.911	44.984	Support Services & Other Corporate Services
Non-distributed costs	-0.688	0.688	-	
Surplus (-) / Deficit on Continuing Operations	**808.832**	6.968	**815.800**	
Other operating expenditure	3.644	-	3.644	Other operating expenditure
Financing and investment income and expenditure	54.236	-2.105	52.131	Financing and investment income and expenditure
Discontinued operations	2.016	-	2.016	Discontinued operations
Taxation and non-specific grant income	-	-	-	Taxation and non-specific grant income
Surplus (-) / Deficit on Provision of Services	**868.728**	**4.863**	**873.591**	

Gross Income	As reported in the Comprehensive Income & Expenditure Statement 2015/16 £millions	Adjustments between SERCOP classifications and internal reporting classifications £millions	As restated 2015/16 £millions	Directorate
Continuing Operations				
Central services to the public	-1.733	1.733	-	
Cultural and related services	-2.035	2.035	-	
Environmental and regulatory services	-21.006	-26.908	-47.914	ECI Other Services
Planning services	-34.528	34.528	-	
	-	-19.318	-19.318	Somerset Waste Partnership
Education and children's services	-263.067	58.278	-204.789	Individual Schools Balances
	-	-2.453	-2.453	Childrens & Families - Operations
	-	-50.489	-50.489	Children & Learning - Commissioning Central
Highways and transport services	-9.243	6.140	-3.103	Highways
Housing services	-0.061	0.061	-	
Adult social care	-79.110	4.648	-74.462	Adults & Health - Operations
	-	-1.948	-1.948	Adults & Health - Commissioner
	-	-2.753	-2.753	Learning Disabilities - Operations
Public Health	-18.631	-0.193	-18.824	Public Health
Corporate and democratic core	-0.025	-8.224	-8.249	Support Services & Other Corporate Services
Non-distributed costs	-	-	-	
Surplus (-) / Deficit on Continuing Operations	**-429.439**	**-4.863**	**-434.302**	
Other operating expenditure	-	-	-	Other operating expenditure
Financing and investment income and expenditure	-9.503	-	-9.503	Financing and investment income and expenditure
Discontinued operations	-2.400	-	-2.400	Discontinued operations
Taxation and non-specific grant income	-377.095	-	-377.095	Taxation and non-specific grant income
Surplus (-) / Deficit on Provision of Services	**-818.437**	**-4.863**	**-823.300**	

Net Expenditure	As reported in the Comprehensive Income & Expenditure Statement 2015/16 £millions	Adjustments between SERCOP classifications and internal reporting classifications £millions	As restated 2015/16 £millions	Directorate
Continuing Operations				
Central services to the public	2.933	-2.933	-	
Cultural and related services	16.646	-16.646	-	
Library book stock recognition (Material Item)	-6.041	6.041	-	
Environmental and regulatory services	34.355	3.149	37.504	ECI Other Services
Planning services	3.718	-3.718	-	
	-	27.320	27.320	Somerset Waste Partnership
Education and children's services	116.007	-102.052	13.955	Individual Schools Balances
	-	58.828	58.828	Childrens & Families - Operations
	-	25.066	25.066	Children & Learning - Commissioning Central
Highways and transport services	52.222	-19.239	32.983	Highways
Housing services	6.240	-6.240	-	
Adult social care	149.570	-53.739	95.831	Adults & Health - Operations
	-	18.764	18.764	Adults & Health - Commissioner
	-	33.391	33.391	Learning Disabilities - Operations
Public Health	0.383	0.738	1.121	Public Health
Corporate and democratic core	4.048	32.687	36.735	Support Services & Other Corporate Services
Non-distributed costs	-0.688	0.688	-	
Surplus (-) / Deficit on Continuing Operations	**379.393**	**2.105**	**381.498**	
Other operating expenditure	3.644	-	3.644	Other operating expenditure
Financing and investment income and expenditure	44.732	-2.105	42.627	Financing and investment income and expenditure
Discontinued operations	-0.384	-	-0.384	Discontinued operations
Taxation and non-specific grant income	-377.095	-	-377.095	Taxation and non-specific grant income
Surplus (-) / Deficit on Provision of Services	**50.290**	**0.000**	**50.290**	

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

The Authority has yet to adopt the following accounting standards:

- Amendment to the reporting of pension fund scheme transaction costs

The objective of this amendment was to confirm the disclosure requirements for pension fund scheme transaction costs.

- Amendment to the reporting of pension fund investment concentration

The objective of this amendment was to highlight any concentrations of investment risk in relation to pension fund investments.

We anticipate that none of the above amendments will have a material impact on our accounts when they are applied prospectively from 1st April 2017.

Note 3: Critical Judgements in Applying Accounting Policies

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

The critical judgements made in this Statement of Accounts are:

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

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

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

- In 2015/16 the Better Care Fund was established by the Government to provide funds to local areas to support the integration of health and social care and to seek to achieve the National Conditions and Local Objectives. It is a requirement of the Better Care Fund that NHS Somerset Clinical Commissioning Group and Somerset County Council establish a pooled fund for this purpose, which was achieved through a signed agreement under Section 75 of the National Health Service Act 2006. Under this Section 75 agreement there are three funds hosted by whichever body undertook the contracting arrangements. Having assessed the arrangement the Authority has determined that Funds 2 and 3 are hosted by ourselves, with Fund 1 being hosted by the Clinical Commissioning Group. Details of how this assessment has affected the transactions the Authority reports in its accounts can be found in Note 17 (page 82)

- The requirement for us to consider the value of our surplus assets at their 'highest and best use' has resulted in a valuation technique comprising of three input levels that indicate the degree of observable and unobservable inputs used to estimate their FV. The amount of estimation varies depending on the level identified by the Authority's valuation experts. Further detail on the fair value of the Authority's surplus assets can be found in Note 29 (page 97).

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

- During 2016/17, the Authority received significant Growth Deal funding from the Government's Local Growth Fund. The funding had been awarded to the Heart of the South West Local Enterprise Partnership (HoSW LEP) and was payable to ourselves as the accountable body for the Local Growth Deal. During the Authority's Group Accounts review, it was concluded that the HoSW LEP entity did not fall under the Authority's control but that the risk of grant claw-back for the Growth Deal funding lay with us. The Growth Deal funding and subsequent cash balance have been recognised in the Authority's accounts this year, as the Authority believes the risks associated with the funding creates a substantive right over the funding for the Authority irrespective of the control environment surrounding the LEP entity. HoSW LEP funding received during 2016/17 where other HoSW LEP partners hold the return obligations have not been recognised in the Authority's accounts.

- The Authorities significant contracts have been reviewed and no embedded finance leases or service concessions were found. The Authority does have one Private Finance Initiative (PFI) contract for the provision of schools; note 31 (page 103) provides further detail;

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

Note 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 Authority about the future. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Balance Sheet at 31 March 2017 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 £3.102 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	If asset values were understated by 1% PPE would need to increase by

	the accounting policies on page 38. Where the measurement basis is not Historic Cost the Fair Value of the asset is estimated. The Authority is dependent on information provided by professional valuers to ensure the fair value of assets is true and fair.	£5.024m and subsequent depreciation would increase by £0.116m
Provisions	The Authority has made several provisions in relation to probable service liabilities in line with IAS 37 – Provisions, Contingent Liabilities and Contingent Assets. There is uncertainty around the value or probability of these liabilities. The Authority has also recognised a provision for Non-Domestic Rate (NDR) appeals of £1.462m as result of the localisation of business rates.	The liabilities are based on a best estimate of the expenditure required to meet the obligation. A 10% increase in this figure would change the liability by £59,400. 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 £146,200.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. The Authority instructs Barnett Waddingham, a firm of actuaries, to make these sensitive judgements on our behalf.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £33.657 million (see the sensitivity analysis on page 138 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 £886,956.	If our assumptions are incorrect by 10% the increase or decrease in our impairment would be approximately £88,696.
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% is assumed to resign from one job and take up another position with the Authority. The SCC staff accrual has a few assumptions: 1) A sample was made to calculate the average leave and flexi time carried forward. This sample was applied to all staff salary costs. Each year the Authority considers any significant staff changes in service areas. Any material changes we will redo the sample. For 2016/17 there were no major changes.	If accruals are not correctly estimated they can have a substantial effect on the current year's result and consequently the following year when the accrual is reversed. The accrual may be too high/low for the movement in the percentage of teachers taking up another position differs. 1) If actuals differ from the sample average, the accrual may be substantially under or over estimated. If the staff that left held excessive amounts of leave and flexi and this was paid off, it would affect the sample calculation and the accrual may be over/under estimated.

	2) An average rate for national insurance and superannuation has been made based on the actual charge for the year. This average has been applied to all staff.	2) SAP's limitation on Payroll reporting means the Authority cannot show the actual rates paid per person. Some staff will not pay superannuation or have different national insurance rates to the average. The value of the accrual may be over/under estimated.
Accounting for Schools	Where the Authority has been unable to evidence any freehold or leasehold interest in schools related property assets there is an underlying assumption that the Authority holds no substantive rights to the assets. Where no substantive rights can be evidenced, the Authority does not recognise any assets in its Balance Sheet.	If the Authority does hold substantive rights to these properties an asset may need to be recognised in our Balance Sheet (depending on the type of rights held). As part of our analysis the Authority has identified 180 schools related assets (including academies) where no substantive rights could be evidenced. If one school related asset has been incorrectly classified, our Balance Sheet may be understated by approximately £1.250m.
Academies	During the coming year a further number of schools will move to Academy status. There is a large number of accounting and operational processes which have to be completed to ensure the transition is effected accurately and positively.	If the assets relating to these schools are not accounted for correctly or if schools do not move to Academy status but this is not communicated there is a high risk that our balance sheet will be affected.
PFI & Similar Arrangements	PFI and similar arrangements have been considered to have an implied finance lease within the arrangement. In assessing the leases the Authority has estimated the implied interest rate within the leases to calculate interest and principal payments. The future RPI increase within the contracts has been estimated as remaining constant throughout the remaining period of the contract.	Any unexpected change in future RPI's will affect the contingent rent charged to Comprehensive Income & Expenditure Account. For example, a 1% increase in RPI next year would result in an additional £7.086 contingent rent and an additional £17,017 of service costs being charged in the Authority's accounts.
Fair Value Measurement	When the fair values of financial assets and financial liabilities cannot be measured based on quoted prices in active markets (ie Level 1 inputs), their fair value is measured using valuation techniques (eg quoted prices for similar assets or liabilities in active markets or on an investment basis). Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the Authority's assets and liabilities. Where Level 1 inputs are not available, the Authority employs relevant experts to identify the most appropriate valuation techniques to determine fair value. Information about the valuation techniques and inputs used in determining the fair value of the Authority's assets and liabilities is disclosed in note 34 on page 109.	The Authority uses an investment approach based on a derived market yields to measure the fair value of some of its surplus properties. The significant unobservable inputs used in the fair value measurement include management assumptions regarding rent growth, occupancy levels, bad debt levels, tenant covenant strength, etc Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value. Some of the key variables are described further in note 29 on page 97.

Note 5: Events after the Balance Sheet Date

On 1st April, our internal Learning Disabilities Provider Service transferred to be run as a social enterprise partnership with Dimensions UK under the name Discovery. As part of this transfer approximately 1,300 staff transferred to this new Social Enterprise. The Learning Disabilities Provider Service in 2016/17 had a net cost of £28.638m. Over the 6 year life time of the contract it is anticipated that there will be minimal effect on the accounts with staffing and ancillary costs being replaced by a contract cost.

The Authority has provided a bond to Discovery to cover the unlikely event that Discovery are not able to meet future pension contributions and any significant early retirement costs associated with the staff that transferred to the new entity. At the time of publishing these accounts the value of the bond is estimated to be £4.876m in year one, £6.325m in year two and £7.598m in year three with Dimensions UK providing the first £3.000m of any requirement.

Note 6: Expenditure & Funding Analysis

This analysis shows how our annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) in comparison with those resources consumed or earned in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes across our services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2015/16				2016/17		
Net Expenditure Chargable to the General Fund	Adjustments between Funding and Accounting basis	Net Expenditure in the Comprehensive Income and Expenditure Statement	Expenditure & Funding Analysis for the year ended 31 March 2017	Net Expenditure Chargable to the General Fund	Adjustments between Funding and Accounting basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
£millions	£millions	£millions		£millions	£millions	£millions
94.059	1.772	95.831	Adults and Health - Operations	102.976	1.024	104.000
55.757	3.071	58.828	Children & Families - Operations	58.452	1.830	60.282
27.503	5.888	33.391	Learning Disabilities - Operations	28.915	4.428	33.343
26.505	0.815	27.320	Somerset Waste Partnership	25.882	1.004	26.886
18.468	0.296	18.764	Adults and Health - Commissioner	16.899	0.145	17.044
24.838	0.228	25.066	Children & Learning - Commissioning Central	28.604	0.246	28.850
11.640	21.343	32.983	Highways	17.753	18.220	35.973
1.069	0.052	1.121	Public Health	0.841	0.039	0.880
35.309	2.195	37.504	ECI Other Services	23.545	12.597	36.142
37.114	-0.379	36.735	Support Services & Other Corporate Spending	39.955	4.447	44.402
-1.157	15.112	13.955	Individual Schools Budget	4.026	14.733	18.759
331.105	**50.393**	**381.498**	**Surplus (-) / Deficit on Continuing Operations**	**347.848**	**58.713**	**406.561**
-309.062	-22.146	-331.208	Other Income & Expenditure	-313.475	-21.525	-335.000
22.043	**28.247**	**50.290**	**Surplus (-) or Deficit on Provision of Services**	**34.373**	**37.188**	**71.561**
106.048			Opening General Fund Balance at 31 March 2016	84.005		
22.043			Less Deficit on General Fund in Year	34.373		
84.005			**Closing General Fund Balance at 31 March 2017**	**49.632**		

Note 7: Note to the Expenditure & Funding Analysis

This note provides a reconciliation of the main adjustments to Net Expenditure Chargeable to the General Fund to arrive at the amounts in the Comprehensive Income and Expenditure Statement. An explanation of the main adjustments identified in the tables below is also provided. The relevant transfers between reserves are explained in the Movement in Reserves Statement.

2016/17

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments
	£millions	£millions	£millions	£millions
Adults and Health - Operations	0.330	0.694	-	1.024
Children & Families - Operations	0.510	1.320	-	1.830
Learning Disabilities - Operations	2.940	1.488	-	4.428
Somerset Waste Partnership	0.953	0.051	-	1.004
Adults and Health - Commissioner	-	0.145	-	0.145
Children & Learning - Commissioning Central	0.150	0.088	0.008	0.246
Highways	18.090	0.131	-0.001	18.220
Public Health	0.010	0.029	-	0.039
ECI Other Services	11.920	0.677	-	12.597
Support Services & Other Corporate Spending	9.033	-4.589	0.003	4.447
Individual Schools Budget	11.837	3.291	-0.395	14.733
Net Cost of Services	**55.773**	**3.325**	**-0.385**	**58.713**
Other Income & Expenditure				
Other operating expenditure	13.136	-	-	13.136
Financial and investment income and expenditure	-1.175	25.947	-0.041	24.731
Discontinued Operations	-	-	-	-
Taxation and non-specific grant income and expenditure	-58.231	-	-1.161	-59.392
General Fund (Surplus)/Deficit	**9.503**	**29.272**	**-1.587**	**37.188**

2015/16

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments
	£millions	£millions	£millions	£millions
Adults and Health - Operations	0.360	1.412	-	1.772
Children & Families - Operations	0.483	2.588	-	3.071
Learning Disabilities - Operations	2.922	2.971	-0.005	5.888
Somerset Waste Partnership	0.716	0.099	-	0.815
Adults and Health - Commissioner	-	0.296	-	0.296
Children & Learning - Commissioning Central	0.007	0.224	-0.003	0.228
Highways	20.951	0.392	-	21.343
Public Health	-0.006	0.058	-	0.052
ECI Other Services	0.818	1.377	-	2.195
Support Services & Other Corporate Spending	6.915	-7.294	-	-0.379
Individual Schools Budget	8.465	6.651	-0.004	15.112
Net Cost of Services	**41.631**	**8.774**	**-0.012**	**50.393**
Other Income & Expenditure				
Other operating expenditure	2.839	-	-	2.839
Financial and investment income and expenditure	-5.773	26.110	-0.013	20.324
Discontinued Operations	-	-	-0.094	-0.094
Taxation and non-specific grant income and expenditure	-45.656	-	0.441	-45.215
General Fund (Surplus)/Deficit	**-6.959**	**34.884**	**0.322**	**28.247**

Adjustments for Capital Purposes

These adjustments include:

- An adjustment for depreciation, impairment and revaluation gains/losses in the services line, to ensure the costs are not chargeable to the General Fund;
- An adjustment to the Other Operating Expenditure line for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets;
- An adjustment to the Financing and investment income and expenditure line for the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions that are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices;
- An adjustment to the Taxation and non-specific grant income and expenditure line for capital grants that represents income not chargeable under generally accepted accounting practices; and
- An adjustment for the expenditure charged to capital receipts under the Flexible Use of Capital Receipts Directive during the year.

Net Change for the Pensions Adjustments

These adjustments include:

- The removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income. For services this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs; and
- An adjustment to the Financing and Investment income and expenditure line for the net interest on the defined benefit liability charged to the Comprehensive Income and Expenditure Statement.

Other Differences

These adjustments include differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute, such as:

- The charge under Taxation and non-specific grant income and expenditure for the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund; and
- The 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.

Note 8: Expenditure and Income Analysed by Nature

The Code requires us to provide a disclosure on the nature of expenses and income. The Authority's expenditure and income (as reported in the Comprehensive Income and Expenditure Statement) is analysed as follows:

Expenditure and Income	2015/16 £millions	2016/17 £ millions
Employee expenses	311.925	300.401
Other service expenses	387.516	400.872
Support service recharges	38.599	35.742
Depreciation, amortisation and impairment	87.033	108.864
Interest payments (including pension interest cost)	44.875	44.614
Precepts & levies	0.804	0.763
Loss on revaluation of current assets held for sale	0.007	0.119
Gain or Loss on disposal of fixed assets	2.832	13.018
Total Expenditure	**873.591**	**904.392**
Fees, charges & other service income	-171.764	-173.387
Interest and investment income	-3.153	-2.882
Income from council tax/ NNDR/ SRA	-256.482	-271.825
Government grants and contributions	-391.902	-384.737
Total Income	**-823.301**	**-832.831**
Surplus or deficit on the provision of services	**50.290**	**71.561**

Note 9: Segmental Reporting

Segmental Assets

As we report outstanding debt internally to those charged with governance, the Code requires us to present an analysis of the outstanding debt at year-end on a segmental basis. There is a further requirement for us to present a reconciliation of the segmental debt to the total debt reported in the Balance Sheet.

Segmental Analysis - Outstanding Debt	2015/16 £million	2016/17 £million
Adults and Health - Operations	2.501	2.625
Adults and Health - Commissioner	1.644	0.441
Children & Families - Operations	0.069	0.530
Children & Learning - Commissioning Central	0.51	0.586
Learning Disabilities - Operations	0.303	0.297
ECI - Commissioning	0.004	0.012
ECI - Operations	3.069	3.073
Public Health	0.076	0.064
Business Development	0.328	1.089
Customers & Communities	-	0.126
Schools & Early Years	0.070	0.077
Support Services for Education	0.251	0.585
Finance & Performance	0.164	1.078
Total - as reported at Outturn	**8.989**	**10.583**

Reconciliation of segmental debt to the total short term debtor reported in the Balance Sheet	2015/16 £million	2016/17 £million
Segmental Debt - as reported at Outturn	8.989	10.583
Debt - not reportable at Outturn:		
Collection Fund Debtor	10.303	11.686
Capital Debtors	4.024	11.651
Payments in Advance	7.662	18.755
VAT Debtor	7.892	4.853
Other year-end accrued debt	5.092	6.417
Short-term debtor - as reported in Balance Sheet	**43.962**	**63.945**

Material Items of Income and Expenditure

The Comprehensive Income & Expenditure Statement and the Expenditure & Funding Analysis both provide a measure of surplus or deficit. As the following material items are included in both, we are required to report them on a segmental basis.

2016/17

For the year ended 31 March 2017	Adults and Health - Operations £millions	Children & Learning - Commissioning Central £millions	Learning Disabilities - Operations £millions	Highways £millions	Support Services & Other Corporate Services £millions	Individual Schools Budget £millions	ECI Other Services £millions	Traded Services £millions	Other Direct Services £millions	Total - Continuing Operations £millions
Revenue from external customers	-24.854	-0.882	-1.860	-0.540	-3.359	-7.452	-10.838	-6.278	-0.836	**-56.899**
Revenues from transactions with other operating segments of the authority	-3.400	-3.171	-0.670	-0.001	-15.189	-25.534	-1.747	-16.003	-2.357	**-68.072**
Non Cash Items:										
Capital Charges (Depreciation etc)	0.222	0.150	3.661	24.421	6.672	15.700	56.137	0.132	1.769	**108.864**
IAS19 Employee Benefit adjustment	0.694	0.088	1.488	0.131	0.019	3.291	0.678	0.527	1.544	**8.460**

2015/16

For the year ended 31 March 2016	Adults and Health - Operations £millions	Children & Learning - Commissioning Central £millions	Learning Disabilities - Operations £millions	Highways £millions	Support Services & Other Corporate Services £millions	Individual Schools Budget £millions	ECI Other Services £millions	Traded Services £millions	Other Direct Services £millions	Total - Continuing Operations £millions
Revenue from external customers	-25.291	-1.198	-1.890	-0.737	-2.830	-6.748	-11.419	-6.084	-1.651	**-57.848**
Revenues from transactions with other operating segments of the authority	-7.548	-3.061	-1.105	0.000	-13.246	-25.452	-1.797	-14.915	-1.567	**-68.691**
Non Cash Items:										
Capital Charges (Depreciation etc)	0.397	0.168	2.922	22.810	6.630	14.494	38.206	0.137	1.269	**87.033**
IAS19 Employee Benefit adjustment	1.412	0.224	2.971	0.392	0.089	6.651	1.377	0.998	3.041	**17.155**

Note 10: Adjustments between Accounting Basis and Funding Basis under Regulation

Adjustments between accounting basis and funding basis under regulations for the year ended 31 March 2017	Usable Reserves General Fund - Schools & Other £millions	Capital Receipts Reserve £millions	Capital Grants & Contributions Unapplied £millions
Adjustments to Revenue Resources:			
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:			
Pension Costs (transferred to/(from) the Pensions Reserve)	29.272	0.000	0.000
Council Tax and NDR (transferred to/(from) the Collection Fund Adj Account)	-1.161	0.000	0.000
Holiday Pay (transferred to/(from) the Accumulated Absence Adj Account)	-0.425	0.000	0.000
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adj Account)	20.213	0.000	104.861
Total Adjustments to Revenue Resources	**47.899**	**0.000**	**104.861**
Adjustments between Revenue and Capital Resources:			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	-3.273	3.273	0.000
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	0.079	-0.079	0.000
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	-1.283	0.000	0.000
Flexible Use of Capital Receipts directive (transfer to the Capital Adjustment Account)	2.388	0.000	0.000
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	-8.622	0.000	0.000
Total Adjustments between Revenue and Capital Resources	**-10.711**	**3.194**	**0.000**
Adjustments to Capital Resources:			
Use of the Capital Receipts Reserve to finance capital expenditure	0.000	-18.770	0.000
Use of the Capital Receipts Reserve to finance the Flexible Use of Capital Receipts directive	0.000	-2.388	0.000
Application of capital grants to finance capital expenditure	0.000	0.000	-106.239
Cash payments in relation to deferred capital receipts	0.000	0.028	0.000
Total Adjustments to Capital Resources	**0.000**	**-21.130**	**-106.239**
Total Adjustments	**37.188**	**-17.936**	**-1.378**

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

Note 11: 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 2016/17.

	Balance at 31 March 2015 £millions	Transfers Out 2015/16 £millions	Transfers In 2015/16 £millions	Net Movement 2015/16 £millions	Balance at 31 March 2016 £millions	Transfers Out 2016/17 £millions	Transfers In 2016/17 £millions	Net Movement 2016/17 £millions	Balance at 31 March 2017
General Fund:									
Operating Accounts	1.798	-0.679	-	-0.679	1.119	-1.555	-	-1.555	-0.436
Economic Development Fund	1.934	-0.791	-	-0.791	1.143	-0.854	0.193	-0.661	0.482
Reserves for capital purposes	11.346	-1.710	-	-1.710	9.636	-6.177	-	-6.177	3.459
Invest to Save Fund	0.480	-0.101	-	-0.101	0.379	-0.301	-	-0.301	0.078
Pensions Equalisation	0.134	-0.134	-	-0.134	-	-	-	-	-
Adult Social Care Capacity Planning Reserve	1.590	-1.337	-	-1.337	0.253	-0.253	-	-0.253	-
Carers Pooled Budget	0.039	-	0.020	0.020	0.059	-0.026	-	-0.026	0.033
UC Equalisation Reserve	3.931	-2.766	-	-2.766	1.165	-1.165	-	-1.165	-
Supply Mutual Fund Reserve	0.647	-0.101	-	-0.101	0.546	-0.034	-	-0.034	0.512
Legal Services - schools earmarked	0.117	-0.117	0.018	-0.099	0.018	-0.018	-	-0.018	-
LATS Earmarked Reserve	0.126	-	-	-	0.126	-0.126	-	-0.126	-
Hinkley Project	0.106	-0.083	-	-0.083	0.023	-	-	-	0.023
Elections	0.238	-	0.245	0.245	0.483	-	0.250	0.250	0.733
NIDR Funding	1.405	-2.404	0.999	-1.405	-	-	-	-	-
Highbridge Enterprise Center funding	0.026	-0.026	-	-0.026	-	-	-	-	-
Somerset Rivers Authority	2.056	-0.640	-	-0.640	1.416	-0.895	-	-0.895	0.521
Flood Recovery & 20 year plan	12.868	-5.007	-	-5.007	7.861	-6.798	-	-6.798	1.063
Total Transport Pilot Fund	0.305	-0.014	-	-0.014	0.291	-0.051	-	-0.051	0.240
Sustainable Drainage Funding	0.128	-0.021	-	-0.021	0.107	-0.036	-	-0.036	0.071
Library renewal book fund	-	-	1.500	1.500	1.500	-1.346	-	-1.346	0.154
Somerset Drug & Alcohol	0.360	-0.015	-	-0.015	0.345	-0.210	-	-0.210	0.135
Superfast Broadband	0.607	-0.114	-	-0.114	0.493	-0.296	-	-0.296	0.197
Social Worker Trainees	0.116	-0.116	-	-0.116	-	-	-	-	-
Targeted Youth	0.012	-	-	-	0.012	-0.012	-	-0.012	-
Adoption Reform Grant	0.824	-0.824	-	-0.824	-	-	-	-	-
SEN reform grant	-	-0.367	0.932	0.565	0.565	-0.381	-	-0.381	0.184
S106 funds	-	-	0.145	0.145	0.145	-0.004	0.085	0.081	0.226
SAPHTO Funds	-	-	0.032	0.032	0.032	-0.016	-	-0.016	0.016
S31 Grants	-	-0.716	1.660	0.944	0.944	-0.944	-	-0.944	-
Local Enterprise Partnership (LEP)	0.236	-	0.414	0.414	0.650	-0.054	2.180	2.126	2.776
Change Programme	1.754	-1.001	-	-1.001	0.753	-0.753	-	-0.753	-
SWP - WDA	0.281	-0.108	0.926	0.818	1.099	-0.918	0.628	-0.290	0.809
Environment Commuted Sums Reserve	1.751	-0.858	0.009	-0.849	0.902	-	0.325	0.325	1.227
School Improvement Board	0.500	-0.390	-	-0.390	0.110	-0.110	-	-0.110	-
Insurance Fund Reserve	3.560	-	0.630	0.630	4.190	-2.882	-	-2.882	1.308
Youth Bank	0.051	-0.019	-	-0.019	0.032	-0.020	-	-0.020	0.012
Central Schools Budget - Compact	3.031	-2.282	-	-2.282	0.749	-0.354	-	-0.354	0.395
Various DSG	-	-	-	-	-	-3.235	0.061	-3.174	-3.174
BSF Bridgwater Equaliation Reserve	2.552	-	1.145	1.145	3.697	-	1.102	1.102	4.799
SRA Precept 2016/17	-	-	-	-	-	-0.259	2.142	1.883	1.883
Repairs and Maintenance Fund (inc BMIS)	0.749	-2.025	-	-2.025	-1.276	-1.225	-	-1.225	-2.501
Public Health Earmarked				0.000	0.000	-0.720	2.077	1.357	1.357
Schools CLPs	-	0.000	-	0.000	0.000		0.535	0.535	0.535
Directorate Budget Carry Forwards	1.293	-11.721	8.326	-3.395	-2.102	-21.026	14.146	-6.880	-8.982
Total excluding School Balances	56.951	-36.487	17.001	-19.486	37.465	-53.054	23.724	-29.330	8.135
Balances held by schools under a scheme of delegation	23.425	-22.050	24.155	2.105	25.530	-23.718	19.528	-4.190	21.340
Total	**80.376**	**-58.537**	**41.156**	**-17.381**	**62.995**	**-76.772**	**43.252**	**-33.520**	**29.475**

Note 12: Other Operating Expenditure

2015/16 £millions		2016/17 £millions
2.832	(Gain)/losses on the disposal of non-current assets	13.018
0.007	Loss on the revaluation of current assets held for sale	0.119
	Levies:	
0.636	- Environment Agencies	0.653
0.111	- Devon and Severn IFCA	0.110
0.057	- Magistrates Courts	-
3.643		**13.900**

The loss on disposal of non-current assets during 2016/17 was largely due to writing out £12.072m for schools converting to academy status and £0.988m for the cancellation of a long term lease with Somerset Care Ltd. There are various other small losses that were partially offset by the £0.983m gains recognised in the year from the sale of farm land.

Note 13: Financing and Investment Income and Expenditure

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

2015/16 (Restated) £millions		2016/17 £millions
19.763	Interest payable and similar charges	19.194
25.112	Net pensions interest cost (on the defined liability)	25.420
-3.316	Interest receivable and similar income	-2.882
1.068	Deficit from trading activities (see note 16)	0.325
42.627		**42.057**

Note 14: Taxation and Non-Specific Grant Income

2015/16 £millions		2016/17 £millions
-194.112	Council Tax income	-205.855
-62.370	National Non-Domestic Rates	-63.551
-	Somerset Rivers Authority Precept	-2.419
-74.957	Non-ringfenced government grants	-60.901
-45.656	Capital grants and contributions	-58.231
-377.095		**-390.957**

Note 15: Surplus or deficit on revaluation of fixed assets

2015/16 £millions		2016/17 £millions
-25.823	Gains credited to the Revaluation Reserve	-23.480
5.451	Losses charged to the Revaluation Reserve	6.800
-20.372		-16.680

Note 16: Trading Operations

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

2015/16 Total Expenditure (Restated) £millions	2015/16 Turnover (Income) £millions	2015/16 Surplus (-) or deficit (Restated) £millions	Trading unit	2016/17 Total Expenditure £millions	2016/17 Turnover (Income) £millions	2016/17 Surplus (-) or deficit £millions
2.733	-1.778	0.955	Dillington House	1.832	-1.780	0.052
19.383	-19.270	0.113	Support Services for Education	20.916	-20.643	0.273
22.116	**-21.048**	**1.068**	**Surplus (-) or deficit on trading activities**	**22.748**	**-22.423**	**0.325**

The following provides a brief description of each of the Authority's trading services.

Dillington House is a traded unit that offers itself as a premier events venue to the public and private and government sectors. It provides weddings and social events, day and residential conference facilities and an extensive adult education programme which includes concerts and talks. Onsite accommodation of 40 bedrooms is also available

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

Note 17: Pooled Budgets

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

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

2015/16 £millions	**Integrated Community Equipment Service (previously known as the Joint Equipment Service)**	**2016/17 £millions**
	Income from:	
-1.116	Adults and Health Service	-1.236
-0.321	Children and Learning Service	-0.320
-1.456	Somerset Clinical Commissioning Group (Including Continuing Healthcare Income)	-1.393
-1.200	Other Grant Income	-1.305
-4.093	Total income	-4.254
	Less the following spending:	
4.244	Equipment, delivery costs, minor work	4.098
0.093	Management and administration	0.096
4.337	Total spending	4.194
0.244	**Overspending or underspending (-)**	**-0.060**

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

2015/16 £millions	Learning Disabilities Service	2016/17 £millions
	Income from:	
-49.370	Adults and Health Service	-48.731
-0.383	Pensions Equalisation Reserve	-
-18.249	Somerset Clinical Commissioning Group	-18.148
-	Somerset Partnership	-0.014
-7.411	Income from charges and grant income	-7.047
-75.413	Total income	-73.940
	Less the following spending:	
45.529	Purchasing (independent sector)	49.784
9.899	Residential services	10.079
13.111	Supported housing	13.450
7.163	Day services	7.331
1.529	Community teams	1.503
77.231	Total spending	82.147
1.818	**Overspending or underspending (-)**	**8.207**

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.

2015/16 £millions	Carers	2016/17 £millions
	Income from:	
-0.203	Adults and Health Service	-0.224
-0.204	Somerset Clinical Commissioning Group	-0.231
-0.039	Earmarked Reserve Drawdown	-0.059
-0.049	Other Grant Funding	-
-0.495	Total income	-0.514
	Less the following spending:	
0.407	Universal Carers Support Service	0.408
0.029	Carers Support Worker Salary/Running Costs	0.026
-	CAMHS Carers Assessment Workers	0.048
0.436	Total spending	0.482
-0.059	**Overspending or underspending (-)**	**-0.032**

Another area where the Authority works with the Somerset Clinical Commissioning Group is the **Better Care Fund**, which was established by the Government to provide funds to local areas to support the integration of health and social care and to seek to achieve the National Conditions and Local Objectives. It is a requirement of the Better Care Fund that NHS Somerset Clinical Commissioning Group and Somerset County Council establish a pooled fund for this purpose, which has been achieved in 2016/17 through a signed agreement under Section 75 of the National Health Service Act 2006.

Under this Section 75 agreement there are three funds totalling £38.679m and hosted by whichever body undertook the contracting arrangements. These funds support the four schemes supported by the Better Care Fund namely Reablement, Person-centred care, Improved DToC Arrangements and Housing Adaptions.

This table shows the total actual expenditure incurred by the Better Care Fund in 2016/17, by Fund:

Somerset Better Care Fund	Fund 1 £millions	Fund 2 £millions	Fund 3 £millions	BCF Total
Scheme A				
Reablement & Other social care schemes	2.858	11.447	-	14.305
Scheme B				
Person-centered care	20.704	0.204	-	20.908
Scheme C				
Improved DToC Arrangements	-	-	-	-
Scheme D				
Housing Adaptions	-	-	3.466	3.466
Total per Fund	23.562	11.651	3.466	38.679

Scheme C – Improved DToC Arrangements
The funding for this scheme totalling £0.380m has come from existing Commissioner and Provider allocations and has been accounted for outside of the Better Care Fund. The contribution of the Clinical Commissioning Group was £0.145m, Taunton & Somerset NHS Foundation Trust £0.146m, Yeovil District Hospital NHS Foundation Trust £0.065m and Somerset County Council £0.024m.

Fund 1 is hosted by the Clinical Commissioning Group and totals £23.562m. The fund includes contributions from the CCG only, which have been paid to providers contracted to support the Reablement and Person-centred care. The 16/17 plan assumes payments made from the CCG to Somerset Partnership NHS Foundation Trust £9.417m Taunton & Somerset NHS Foundation Trust £8.276m and Yeovil District Hospital NHS Foundation Trust £5.869m.The CCG controls this fund in its entirety and wholly owns any risk relating to this fund as per the Section 75 agreement.

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

Fund 2 is hosted by Somerset County Council and totals £11.651m. This fund includes a small amount of funding, £203,500, which is the CCGs contribution to the Carers Pooled budget.
The remaining fund is a contribution from the CCG paid to Somerset County Council for them to contract to support the Reablement scheme and other social care schemes including protecting social care services. The County Council controls this fund and wholly owns any risk relating to this fund as per the Section 75 agreement; therefore under IFRS 11 this fund is not classed as a joint arrangement.

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

Fund 3 is hosted by Somerset County Council and totals £3.466m. The fund includes contributions from the County Council only, which have been paid to providers contracted to support the Housing Adaptions schemes. The County Council controls this fund in its entirety and wholly owns any risk relating to this fund as per the Section 75 agreement.

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

Note 18: Members' Allowances

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

2015/16 £millions		2016/17 £millions
0.579	Basic Allowance	0.586
0.214	Special Responsibility Allowance	0.221
0.053	Travel and Subsistence Expenses	0.051
0.014	Payments to Co-optees	0.012
0.860		**0.870**

Note 19: Senior Officers' Remuneration

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

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

Table 1 – Staff paid more than £50,000 (shown in £5,000 bands) for the financial year ended 31 March 2017

2015/16 Number of employees			2016/17 Number of employees	
Schools	Non-schools	Employee pay bands	Schools	Non-schools
75	33	£50,000 to £54,999	78	39
45	14	£55,000 to £59,999	40	17
22	26	£60,000 to £64,999	24	13
15	8	£65,000 to £69,999	11	19
8	6	£70,000 to £74,999	6	12
-	1	£75,000 to £79,999	3	6
4	1	£80,000 to £84,999	1	1
1	4	£85,000 to £89,999	2	7
3	2	£90,000 to £94,999	3	-
-	1	£95,000 to £99,999	-	-
-	4	£100,000 to £104,999	-	7
-	2	£105,000 to £109,999	-	2
-	-	£110,000 to £114,999	-	1
-	-	£115,000 to £119,999	-	-
-	1	£120,000 to £124,999	-	1
-	-	£125,000 to £129,999	-	-
-	1	£130,000 to £134,999	-	1
-	-	£135,000 to £139,999	-	-
-	-	£140,000 to £144,999	-	-
-	-	£145,000 to £149,999	-	-
-	1	£150,000 to £154,999	-	1
-	-	£155,000 to £159,999	-	-
-	-	£160,000 to £164,999	-	-
-	-	£165,000 to £169,999	-	-
-	-	£170,000 to £174,999	-	-
-	-	£175,000 to £179,999	-	-
-	-	£180,000 to £184,999	-	-

The following tables set out the salaries and wages of the Authority's senior officers earned during 2015/16 and 2016/17. This is produced following the requirements set by CIPFA in their Accounting Code of Practice. The comparative table has been restated only include those officers that meet the disclosure requirements.

Consideration has also been given to the LAAP Bulletin 85, where staff who earned more than £150,000 (excluding compensation loss of office payments and pension contributions) have been named.

Table 2 – Actual salary and benefits paid for the financial year ended 31 March 2016

Post holder information (Post title and name) (Restated)	Salary (including fees and allowances) £	Compensation for loss of office £	Benefits in kind £	Total wages and benefits but not including pension contributions 2015/16 £	Employer's pension contributions £	Total wages and benefits including pension contributions 2015/16 £
Head of paid service:						
Patrick Flaherty	153,800	-	-	153,800	20,800	174,600
Statutory chief officers or those who report directly to the head of paid service:						
- Group Director of Operations	123,000	-	-	123,000	16,600	139,600
- Director of Public Health	107,900	-	300	108,200	15,300	123,500
- Director of Finance and Performance	102,500	-	-	102,500	13,800	116,300
- Director of Commercial & Business Services	102,500	-	-	102,500	13,800	116,300
- Director of Adult Social Services - *Note 1*						
-Officer 1	17,100	24,400	-	41,500	2,300	43,800
-Officer 2	168,500	-	-	168,500	-	168,500
-Officer 3	24,500	-		24,500	3,300	27,800
- Director of Children's Services	132,700	-	-	132,700	17,900	150,600
- Director of Economic & Community Infrastructure	99,900	-	-	99,900	13,500	113,400
- Director of Customers & Communities	87,100	-	-	87,100	11,800	98,900
Non-statutory chief officers who are directly accountable to the local authority themselves						
County Solicitor	64,400	-	-	64,400	8,700	73,100
Group Manager Community Governance / Monitoring Officer	64,400	-	-	64,400	8,700	73,100

Note 1- An SCC employee covered this role during April – June 15. The role was then covered by a Consultant during June 15 to January 16 then a permanent member of staff filled the position from January 16. The annualised salary for this post would have been £98,000.

Table 3 – Actual salary and benefits paid for the financial year ended 31 March 2017

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 2016/17 £	Employer's pension contributions £	Total wages and benefits including pension contributions 2016/17 £
Head of paid service:						
Patrick Flaherty	154,500	-	-	154,500	20,900	175,400
Statutory chief officers or those who report directly to the head of paid service:						
- Group Director of Operations - Note 1	72,100	-	-	72,100	9,700	81,800
- Director of Public Health	108,200	-	200	108,400	15,500	123,900
- Director of Finance and Performance	103,000	-	-	103,000	13,900	116,900
- Director of Commercial & Business Services	103,000	-	-	103,000	13,900	116,900
- Director of Adult Social Services	121,200			121,200	16,400	137,600
- Director of Children's Services	133,900	-	-	133,900	18,100	152,000
- Director of Economic & Community Infrastructure	103,000	-	-	103,000	13,900	116,900
- Director of Customers & Communities	87,600	-	-	87,600	11,800	99,400
Non-statutory chief officers who are directly accountable to the local authority themselves						
Group Manager Community Governance / Monitoring Officer	71,300	-	-	71,300	9,800	81,100
County Solicitor	65,100	-	-	65,100	8,800	73,900

Note 1- The Group Direct of Operations was only in post for part of the year. The post is no longer within the Authorities structure.

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

Exit package cost band (inc. special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each cost band	
	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16 £millions	2016/17 £millions
£0 - £20,000	22	15	125	115	147	130	0.803	1.082
£20,001 - £40,000	3	2	10	31	13	33	0.353	0.946
£40,001 - £60,000	-		3	11	3	11	0.149	0.541
£60,001 - £80,000	-		2	9	2	9	0.143	0.623
£80,001 - £100,000	-		-	3	-	3	-	0.280
£100,001 - £120,000	-		1	1	1	1	0.109	0.111
£120,001 - £140,000	-		1	1	1	1	0.131	0.123
£180,001 - £200,000	-		-	1	-	1	-	0.186

Note 20: Termination Benefits

The Authority terminated the contracts of 189 employees in 2016/17, incurring liabilities of £3.892 million. This is analysed below between Local Authority staff and Teachers, and details any significant reasons for terminations.

Local Authority
The redundancy total includes; £3.222 million payable to 137 staff who took voluntary redundancy or early retirement. A further £0.122 million was paid to 13 staff who were given compulsory redundancy. 10 of which were due to support service restructures costing £0.081 million and the remaining 3 redundancies were due to school restructures.

Teachers
Included in the above statement of £3.892 million, the Authority terminated the contracts of 39 teachers in 2016/17, incurring liabilities of £0.548 million. These terminations can be split between compulsory redundancies (4) and other termination reasons (35), and can be analysed as follows:

- Primary 15 Teachers
- Secondary 20 Teachers
- Special 4 Teacher

Note 21: Fees for External Audit Services

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

2015/16 £millions		2016/17 £millions
	Fees payable to auditors appointed under the Local Audit & Accountability Act 2014	
0.100	– Main audit	0.100
0.005	– Grant claims	0.012
0.008	– Other audit costs	-
0.113		**0.112**

Note 22: Dedicated Schools Grant

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

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

Details of the deployment of DSG receivable for 2016/17 are shown in the following table:

	Central spending £millions	Individual Schools Budget £millions	Total £millions
Final Dedicated Schools Grant for 2016/17 - before Academy Recoupment	-49.173	-295.257	-344.430
Academy figure recouped for 2016/17	-	130.020	130.020
EFA Direct funded places recouped for 2016/17	1.238	-	1.238
Total Dedicated Schools Grant after Academy recoupment for 2016/17	-47.935	-165.237	-213.172
Plus: Brought Forward from 2015/16	-0.749	-	-0.749
Less: Carry Forward to 2017/18 agreed in advance	-	-	-
Agreed initial budgeted distribution in 2016/17	-48.684	-165.237	-213.921
In year adjustments	-	-	-
Final budgeted distribution for 2016/17	**-48.684**	**-165.237**	**-213.921**
Less actual central expenditure	51.463	-	51.463
Less Actual ISB deployed to schools	-	165.237	165.237
Plus Local Authority contribution for 2016/17	-	-	-
Carry-forward to 2017/18	**2.779**	**-**	**2.779**

Note 23: Grant Income

The Authority credited the following grants, capital contributions and capital donations to the Comprehensive Income and Expenditure Statement in 2016/17:

2015/16 £millions		2016/17 £millions
	Credited to Taxation and Non Specific Grant Income	
-57.553	- Revenue Support Grant	-42.241
-2.114	- Council Tax Freeze Grant	-
-0.182	- Lead Local Flood Authority Grant	-0.003
-0.134	- Inshore Fisheries Grant	-0.134
-3.672	- New Homes Bonus	-4.366
-1.752	- Business Rates Cap	-1.613
-0.360	- Rights to Free Travel	-0.358
-4.393	- Building Schools for the Future	-4.346
-4.461	- Education Services Grant - Serv for LA	-4.021
-0.336	- Local Reform and Community Voices Gnt	-0.341
-	- Rural Services Delivery Grant	-2.388
-	- Transitional Grant	-1.090
-9.068	- Standards Fund Capital Grant	-10.604
-12.146	- Department for Transport Capital Grant	-30.359
-19.004	- LEP	-2.069
-	- West Monkton Primary School	-7.325
-5.438	- Other capital grants / Contributions (including developer S106 income)	-7.874
-120.613	**Total**	**-119.132**
	Credited to Services	
-214.531	- Dedicated Schools Grant	-212.850
-3.815	- Standards Fund	-2.943
-10.512	- Pupil Premium Grant	-9.968
-0.675	- Music Education Grant	-0.670
-0.310	- Special Educational Needs Reform Grant	-0.348
-0.533	- LEP - Start Up Fund	-0.550
-21.741	- LEP - Growth Hub	-31.396
-0.315	- 16-19 Funding	-0.032
-4.026	- Sixth Form Funding (S6F)	-3.932
-1.562	- Primary PE and Sports Grant	-1.535
-1.915	- Skills Funding Agency (formerly Learning and Skills Council)	-
-0.522	- Youth Justice	-0.458
-0.773	- Troubled Families	-1.179
-	- Step Up Social Work	-0.753
-0.449	- School Centred Initial Teacher Training Bursary	-
-0.356	- Year 7 Catch Up preimium grant	-0.172
-4.899	- Universal Infants Free School Meals	-4.620
-1.110	- Children and Young People services – other grants	-1.746
-1.075	- Independent Living Fund	-1.314
-18.345	- Public Health grant	-21.808
-3.658	- Care Act *	-
-0.266	- Adult services – other grants	-0.064
-0.305	- DEFRA - AONB & LARC	-0.315
-0.064	- European Agricultural Fund for Rural Development - LARC	-
-11.230	- Grant from Broadband Delivery UK	-11.810
-0.416	- Bus Service Operators Grant	-0.416
-2.446	- Building Schools for the Future contributions	-2.493
-0.872	- Economic, Communities & Infrstructure services - other grants	-0.174
-1.501	- Transformation Challenge Award	-
-0.174	- Other services grants	-0.809
-308.398	**Total**	**-312.355**

*£3.415m was awarded as part of RSG during 2016/17

Note 24: Partnerships and Related Party Transactions

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

Central Government

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

Officers

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

Members

Elected Members of the Authority have direct control over the Authority's financial and operating policies. The total of Members' allowances paid in 2016/17 is shown in Note 18. The Members' Code of Conduct requires Members to declare interests in related parties in the Register of Members' Interests. The Register is available on the Council's website and is open to public inspection at County Hall during office hours. Members were also asked to declare separately transactions with the Authority. No material transactions between the Authority and businesses in which members have a controlling interest have been identified.

A number of Members are also members of other local public bodies, including district, parish and town councils, academies and NHS trusts. During 2016/17 a variety of transactions took place between the Authority and these organisations that are deemed not to be material.

Other Related Parties

During 2016/17 Southwest One provided a number of services to the Authority through a contract. These services included elements of finance, facilities management, property services, payroll and technology services. During the year the expenditure on services from Southwest One, including contract payments, was £22.397 million and income received, including payments for salaries of staff seconded from the Authority to Southwest One, was £6.684 million. At 31/03/2017 the Authority reported a Southwest One creditor of £0.429 million. The contract with Southwest One ended in November 2016.

The Authority has significant influence over various small local companies (14 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 2016/17 was £3.536 million.

Futures for Somerset, a long term strategic partnership, is an associate of the Authority, in which the Authority has a 17% share of voting rights and influence over it's long term plans. In 2016/17 the Authority paid £0.955 million to Futures for Somerset.

Note 25: Property, Plant and Equipment

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

There were no impairment losses or reversals recognised on our Property, Plant and Equipment, and none of the assets above were recognised under a PFI type arrangement, during 2015/16.

Movements in 2016/17	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total
	£millions	£millions	£millions	£millions	£millions	£millions	£millions
Cost or valuation							
At 1 April 2016	511.529	60.015	563.396	0.424	7.112	41.951	1,184.427
Additions	18.573	8.202	44.433	-	-	10.213	81.422
Disposals	-14.705	-1.977	-0.142	-0.424	-0.400	-0.033	-17.681
Reclassifications	8.951	0.611	-	-	-1.841	-6.297	1.425
Revaluation Increase/decrease (-):							
- to Revaluation Reserve	-7.183	-	-	-	0.285	-	-6.897
- to Surplus/Deficit on the provision of service	-5.257	-	-	-	-0.028	-	-5.285
At 31 March 2017	511.909	66.851	607.687	0.000	5.128	45.835	1,237.410
Depreciation and impairments							
At 1 April 2016	-20.379	-42.709	-250.186	-0.424	-0.392	-0.476	-314.566
Charge for 2016/17	-11.638	-9.127	-24.011	-	-0.025	-	-44.801
Disposals	0.337	1.848	0.142	0.424	0.001	0.033	2.784
Reclassifications	-1.346	0.005	-	-	0.088	-	-1.253
Revaluations	23.526	-	-	-	0.052	-	23.578
At 31 March 2017	-9.501	-49.984	-274.054	0.000	-0.275	-0.443	-334.258
Balance sheet amount at 1 April 2016	**491.150**	**17.306**	**313.210**	**-**	**6.720**	**41.475**	**869.861**
Balance sheet amount at 31 March 2017	**502.408**	**16.867**	**333.633**	**-0.000**	**4.853**	**45.392**	**903.152**
Nature of asset holding at 31 March 2017							
Owned	481.218	16.432	333.633	-	4.852	45.392	881.527
Finance lease	21.190	0.435	-	-	-	-	21.624
	502.408	**16.867**	**333.633**	**-**	**4.852**	**45.392**	**903.152**

There were no impairment losses or reversals recognised on our Property, Plant and Equipment, and none of the assets above were recognised under a PFI type arrangement, during 2016/17.

Capital Commitments

At 31 March 2017, the Authority anticipated investing £203.728m (£119.827m at 31 March 2016) in the construction or enhancement of Property, Plant, Equipment and Infrastructure during 2017/18 and future years. Of this some £46.638m will be for schemes not yet started (£44.682m at 31 March 2016, not reported in the £119.827m), £40.356m for the Superfast Broadband project and £49.880m Local Enterprise Partnership Schemes.

Within the anticipated investment figure, we also have major contractual commitments for a number of schemes that are already in progress. These include:

- £32.263m for the Superfast Broadband Programme (included in the aforementioned £40.356m)
- £7.133m for the New Kingfisher Primary School in Yeovil
- £4.272m for the New Northgate Primary School in Bridgwater
- £2.727m for the new Mendip Partnership School PRU building
- £2.677m for a major expansion project at Wincanton Primary School

Similar commitments listed at 31 March 2016 were £20.586m.

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 £24 million and £28 million in 2017/18 (£23-£27 million in 2016/17). These payments will relate to new projects in 2017/18 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 have been valued on the basis of Existing Use Value (EUV), in accordance with UKPS 1.3 of the RICS Valuation Standards;
- Surplus assets are revalued in accordance with the IFRS13 and RICS VPS 4.1.5.
- Assets classified as 'Held for Sale' are initially valued using the fair value measure appropriate to the class in which they were held when the Assets Held for Sale criteria were satisfied. This value is then compared to the fair value of the asset less costs to sell (based on market value net of the incremental costs directly attributable to the disposal of the asset). The assets valuation is then reduced (where applicable) to the lower of these two values.

	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Surplus Assets	PPE Under Construction	Total
	£millions	£millions	£millions	£millions	£millions	£millions
Carried at historical cost	-	16.867	333.633	-	45.392	**395.892**
Valued at fair value as at:						
31 March 2017	311.009	-	-	4.852	-	**315.861**
31 March 2016	33.073	-	-	-	-	**33.073**
31 March 2015	115.940	-	-	-	-	**115.940**
31 March 2014	24.735	-	-	-	-	**24.735**
31 March 2013	17.651	-	-	-	-	**17.651**
Total cost or valuation	**502.408**	**16.867**	**333.633**	**4.852**	**45.392**	**903.152**

Note 26: Intangible Non Current Assets

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

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

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation charge of £0.278 million for 2016/17 was charged to the following service areas:

- £0.152 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 £0.126 million was charged to various services for use of specific IT systems.

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

2015/16 £millions		2016/17 £millions
	Balance at start of year:	
3.212	– Gross carrying amount	3.310
-1.778	– Accumulated amortisation	-1.937
1.434	**Net carrying amount at start of year**	**1.373**
	Movement in year:	
0.098	Purchases	4.468
-0.159	Amortisation for the period	-0.278
-	Retirement	-
1.373	**Net carrying amount at end of year**	**5.563**

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

	Carrying amount at 31 March 2016 £millions	Carrying amount at 31 March 2017 £millions	Remaining Amortisation Period at 31 March 2017
HCL SAP system (Integrated finance and payroll system)	0.000	3.816	4 years
SAP system licences	1.210	1.139	16 years

Note 27: Impairment Losses

During the valuation process for 2016/17, consideration was given to the Authorities entire asset portfolio. From this review the impairments to specific assets of £0.119m, resulted from assets being newly classified as held for sale and therefore being carried at the lower of cost or fair value.

There were no material impairments in 2016/17.

Note 28: Assets Held For Sale

The majority of the Authority's assets held for sale at 31/03/2017 were former adult and children homes. The movement in the year is reflected in the table shown below:

Current 2015/16 £millions		Current 2016/17 £millions
3.109	**Balance outstanding at start of year**	**0.827**
	Assets newly classified as held for sale:	
0.345	Property, plant and equipment	0.213
0.031	Spend on assets held for sale	0.000
-0.102	Revaluation losses	0.000
-0.007	Impairment losses	-0.119
	Assets declassified as held for sale:	
-2.260	Property, plant and equipment	-0.385
-0.289	Assets sold	-0.326
0.827	**Balance outstanding at year end**	**0.211**

Note 29: Surplus Assets – Fair Value Measurement

Valuation Process for Surplus Properties

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

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

Fair Value Hierarchy

Details of the Authority's surplus properties and information about the fair value hierarchy at the end of the financial year are as follows:

Fair value hierarchy of surplus assets for the year ending 31 March 2017:

	Quoted prices in active markets for identical assets (level 1) £millions	Other significant observable inputs (level 2) £millions	Significant unobservable inputs (level 3) £millions	Fair value as at 31 March 2017 £millions
Office/specific use properties	-	0.302	0.666	0.968
Commercial units	-	0.477	-	0.477
Land	-	0.002	3.405	3.407
	-	**0.781**	**4.071**	**4.852**

Fair value hierarchy of surplus assets for the year ending 31 March 2016:

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

Transfers between Levels of the Surplus Asset Fair Value Hierarchy

There were two assets whose valuation assumptions in 2016/17 led to a change in their overall observable input categorisation from that report in 2015/16.

This is explained as follows:

- Former Compton Dundon Primary - the observable input changed from a legal assumption of land use (category 2) to an estimation of the value of amenity land (category 3).
- Mount Street Day Centre - the observable input changed from an agreed sale price (category 2) to an estimation of the value of development land (category 3).

Reconciliation of Surplus Asset Fair Value Measurements within Level 3

2016/17	01 April 2016 £millions	Transfers into level 3 £millions	Transfers out of Level 3 £millions	Transfers out of Surplus £millions	Purchases £millions	Sales £millions	Unrealised gains/ (losses) £millions	Realised gains/losses £millions	31 March 2017 £millions
Surplus assets	6.387	0.145	-	-2.013	-	-0.450	0.032	-0.030	4.071

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

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

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

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

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

Quantitative Information about Fair Value Measurement of Surplus Assets using Significant Unobservable Inputs – Level 3

	As at 31/03/2017 £millions	Valuation technique used to measure fair value	Significant unobservable inputs	Range with (average used)	Sensitivity
Office/specific use properties	0.666	Investment income approach using market-derived yields	Hope values	10% - 75% '(20%)	Purchasers perceived risk of planning consent. 20% based on peer review for specific properties.
			Yield	6% - 10% '(7.02%)	Fluctuations in current market conditions.
			Conversion costs	Variable (20%)	Current condition and final specific required.
			Hectare price	Variable	Variable by site according to circumstance, ie residential/brownfield/amenity, location and condition.
Land	3.405	Value of developed land with significant hope values applied	Hope values	10% - 75% '(20%)	Purchasers perceived risk of planning consent. 20% based on peer review for specific properties.
			Conversion costs	Variable (20%)	Current condition and final specific required.
			Hectare price	Variable	Variable by site according to circumstance, ie residential/brownfield/amenity, location and condition.

The effect of the fair value measurements using both significant observable (level 2) and unobservable inputs (level 3) on the surplus or deficit on the provision of services or other comprehensive income and expenditure for 2016/17 is as follows:

- Depreciation of £0.025m has been charged to non distributed costs within the surplus or deficit on continuing operations.
- £0.148m of revaluation loss where there was no existing revaluation reserve. This went to the relevant service within the surplus or deficit on continuing operations.
- £0.337m as a gain to the Surplus or deficit on revaluation of fixed assets within other comprehensive income.

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

Note 30: Leases

Authority as Lessee

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

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

	31 March 2016 £millions	31 March 2017 £millions
Other Land and Buildings	22.306	21.190
Vehicles, Plant and Equipment	0.676	0.435
	22.982	**21.624**

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

Included within the minimum lease payment commitments for 2016/17 (below) are the finance lease liability and finance costs for the BSF Bridgwater PFI scheme. Although the schools have been de-recognised from the Authority's accounts (due to control lying with the Bridgwater Education Trust) the lease rental payments are still payable and are therefore included within the total minimum lease payments. See note 31 for further details.

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

2015/16 £millions		2016/17 £millions
	Finance lease liabilities (net present value of minimum lease payments):	
0.950	- Current	1.024
44.744	- Non Current	43.721
64.296	Finance costs payable in future years	60.015
109.990	Minimum lease payments	**104.760**

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

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2016 £millions	**31 March 2017 £millions**	**31 March 2016 £millions**	**31 March 2017 £millions**
Not later than one year	5.318	5.321	0.950	1.024
Later than one year and not later than five years	20.485	20.239	3.774	3.847
Later than five years	84.187	79.200	40.970	39.874
	109.990	**104.760**	**45.694**	**44.745**

The minimum lease payments include rents that are reliant on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2016/17, £0.048m contingent rents were paid by the Authority (£0.037m in 2015/16).

The Authority has sub-let part of Taunton Museum (held under a finance lease) as an operating lease. At 31 March 2017, the minimum lease payments expected to be received under non-cancellable sub-leases was £0.137m (£0.141m in 2015/16).

Operating Leases

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

	31 March 2016		31 March 2017	
Operating Leases	**Land & Buildings £millions**	**Vehicles & Equipment £millions**	**Land & Buildings £millions**	**Vehicles & Equipment £millions**
Not later than one year	0.811	0.320	0.746	0.429
Later than one year and not later than five years	2.351	0.453	2.212	0.539
Later than five years	3.119	-	3.577	0.001
	6.281	**0.773**	**6.535**	**0.969**

The Authority has sub-let some of the assets acquired under operating leases. At 31 March 2017, the minimum lease payments expected to be received under non-cancellable sub-leases were £0.124m (£0.084m at 31 March 2016).

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

	31 March 2016 £millions	31 March 2017 £millions
Minimum Lease Payments	0.121	0.113
Less - Sub-lease payments receivable	-0.084	-0.124
	0.037	**-0.011**

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 84 years. The Authority has also leased out (for a peppercorn rent) a section of Shire Hall to the Secretary of State on a finance lease with a remaining term of 99 years and also the Rural Life Barn museum to the Somerset Preservation Trust with a remaining term of 76 years. We did not acquire any of these assets specifically for the purpose of letting under finance leases.

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

	31 March 2016 £millions	31 March 2017 £millions
Finance lease debtor (net present value of minimum lease payments):		
- Current	0.028	0.029
- Non Current	17.418	16.401
Unearned Finance Income	59.425	55.156
Gross investment in the lease	**76.871**	**71.586**

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 2016 £millions	31 March 2017 £millions	31 March 2016 £millions	31 March 2017 £millions
Not later than one year	0.924	0.872	0.924	0.872
Later than one year and not later than five years	3.696	3.489	3.696	3.489
Later than five years	72.251	67.225	72.251	67.225
	76.871	**71.586**	**76.871**	**71.586**

During 2016/17, the Authority reviewed our arrangement with Somerset Care Ltd and is confident that the lease payments will continue to be received when they fall due. We have therefore not set aside an allowance for uncollectable amounts in our accounts for 2016/17. This will be reviewed again in 2017/18, and if necessary an allowance for uncollectable amounts will be set aside.

The minimum lease payments include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2016/17, £0.077m contingent rents were receivable by the Authority (£0.077m for 2015/16).

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 2016 £millions**	**31 March 2017 £millions**
Not later than one year	0.284	0.236
Later than one year and not later than five years	0.716	0.822
Later than five years	1.121	1.189
	2.121	**2.247**

Note 31: Private Finance Initiatives (PFI) and Similar Contracts

Building Schools for the Future (BSF)

Building Schools for the Future (BSF) was a national Government programme to rebuild or renew every secondary school in England.

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

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

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

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

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

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

	Repayments of Liability £m	Interest Charges £m	Service Charges £m	LifeCycle Replacement £m	Total Payments £m
Within 1 year	0.756	4.280	1.702	0.402	**7.140**
Within 2 - 5 years	3.825	16.320	6.807	1.608	**28.560**
Within 6 - 10 years	7.247	17.935	8.508	2.009	**35.699**
Within 11 - 15 years	11.462	13.720	8.508	2.009	**35.699**
Within 16 - 20 years	18.127	7.054	8.508	2.009	**35.698**
Within 21 - 25 years	2.662	0.284	0.986	0.235	**4.167**
	44.079	**59.593**	**35.019**	**8.272**	**146.963**

Although the Authority is committed to making these payments the leisure centre and new schools will be under the control of the BET and therefore do not appear on the Authority's balance sheet. This is also referred to in note 30 (Leases) on page 100.

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:

	2015/16 £millions	2016/17 £millions
Balance outstanding at start of year	45.362	44.769
Payments made during the year	-0.593	-0.690
Balance outstanding at year-end	**44.769**	**44.079**

The total estimated indexed payments under the contract amount to £214.921 million. These payments are scheduled to be funded from the following revenue streams:

	Proportion of Costs
Central Govt.Grant (PFI Credits)	82.0%
Delegated School Budgets	15.8%
SCC Contribution	2.2%
	100%

Note 32: Heritage Assets - Summary of Transactions

	2015/16 £millions	2016/17 £millions
Carrying Value - as at 1 April		
Numismatic collections	0.790	0.790
Art collections	0.066	0.468
Archaeology	0.166	0.166
Archives	0.380	0.380
Metalwork collections	0.130	0.130
	1.532	**1.934**
Cost of acquisitions of heritage assets		
Art collections	0.402	-
Total cost of purchases	**0.402**	**0.000**
Carrying Value - as at 31 March		
Numismatic collections	0.790	0.790
Art Collections	0.468	0.468
Archaeology	0.166	0.166
Archives	0.380	0.380
Metalwork collections	0.130	0.130
Total Carrying Value - as at 31 March	**1.934**	**1.934**

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

Note 33: Heritage Assets – Further information on the Authority's Museum and Archive Collections

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

The Authority will remain the owner of collections and other heritage assets (reported in note 32) where that is presently the case, or the depositor body in the case of collections belonging to third parties.

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

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

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

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

The whole of the collection is publicly accessible:

- A proportion of the collection can be seen by visitors to our three museums, the Museum of Somerset, Taunton, the Somerset Rural Life Museum, Glastonbury, and the Somerset Brick and Tile Museum, Bridgwater. The Museum of Somerset is open from 10.00-17.00 Tuesday to Saturday and the Brick and Tile Museum from 10.00-16.00 Tuesday and Thursday. The Rural Life Museum is currently undergoing a refurbishment and is currently closed to public access. Reopening is scheduled for 3rd June 2017. In addition, elements of the collection can be seen at other locations, for example, the Glastonbury Lake Village Museum, Glastonbury, Chard Museum and Watchet Boat Museum.
- The majority of the collection is in store at the Somerset Heritage Centre where material is available for viewing by prior appointment from 9.00 until 17.00 Monday to Friday. In addition, there are regular pre-booked public tours of the Heritage Centre which include the museum stores.

Heritage Assets of Particular Importance

Geology

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

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

The Authority has not reported its Geology collection in the Balance Sheet, as valuations are not available at a cost commensurate to users of the financial statements.

Biology

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

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

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

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

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

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

The Authority has not reported its biology collection in the Balance Sheet, as valuations are not available at a cost commensurate to users of the financial statements.

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

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

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

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

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

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

Metalwork

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

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

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

Fine and decorative arts

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

Numismatics

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

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

Archives

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

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

Note 34: Financial Instruments

Categories of Financial Instrument

The following categories of financial instrument are carried in the Balance Sheet:

31 March 2016 Restated			31 March 2017	
Non Current £millions	Current £millions		Non Current £millions	Current £millions
		Investments		
10.181	223.657	Loans and receivables	15.129	180.592
10.181	**223.657**	**Total Investments**	**15.129**	**180.592**
		Debtors		
22.404	27.308	Loans and receivables	20.978	33.504
0.000	16.654	Debtors that are not financial instruments	0.000	30.441
22.404	**43.962**	**Total Debtors**	**20.978**	**63.945**
		Cash and cash equivalents		
0.000	39.131	Cash and cash equivalents	0.000	28.465
0.000	-1.634	Overdraft	0.000	0.000
-	**37.497**	**Total Cash and cash equivalents**	**-**	**28.465**
		Other Assets		
873.168	8.175	Other Assets that are not financial instruments	910.649	7.799
873.168	**8.175**	**Total Other Assets**	**910.649**	**7.799**
		Borrowings		
-333.621	-14.931	Financial liabilities at amortised cost	-336.030	-10.107
-333.621	**-14.931**	**Total Borrowings**	**-336.030**	**-10.107**
		Creditors		
-0.298	-63.803	Financial liabilities at amortised cost	-0.342	-76.770
0.000	-17.319	Creditors that are not financial instruments	0.000	-19.506
-0.298	**-81.122**	**Total Creditors**	**-0.342**	**-96.276**
		Other Liabilities		
-44.744	-0.950	PFI and finance leases carried at amortised cost	-43.721	-1.024
-716.389	-42.720	Other Liabilities that are not financial instruments	-882.101	-46.731
-761.133	**-43.670**	**Total Other Liabilities**	**-925.822**	**-47.755**

Items of Income, Expense, Gains and Losses

The following amounts have been reported in the Comprehensive Income and Expenditure Statement in relation to Financial Instruments:

31 March 2016			31 March 2017	
Financial Liabilities - measured at amortised cost	Financial Assets - Loans & Receivables		Financial Liabilities - measured at amortised cost	Financial Assets - Loans & Receivables
£millions	£millions		£millions	£millions
19.763	-	Interest Expense	19.304	-
19.763	**0.000**	**Total Expense in Surplus/Deficit on the Provision of Service**	**19.304**	**0.000**
-	-3.316	Interest Income	-	-2.992
0.000	**-3.316**	**Total Income in Surplus/Deficit on the Provision of Service**	**0.000**	**-2.992**
19.763	**-3.316**	**Net (Gain)/Loss for the Year**	**19.304**	**-2.992**

Fair Values of Assets and Liabilities

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

- Prevailing swap rates for Lender Option Borrower Options (LOBOs) and Repayment Rate for Public Work Loans Board (PWLB) at 31 March 2017;
- The fair value of the Authority's PFI / lease deferred liability and capital receipt has been calculated using zero coupon rates derived from the Bloomberg GBP European 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:

31 March 2016 Carrying Amount (Restated) £millions	31 March 2016 Fair value (Restated) £millions		31 March 2017 Carrying Amount £millions	31 March 2017 Fair Value £millions
		Finance asset measured at amortised cost		
39.131	39.131	Cash and liquid deposits	28.465	28.465
49.712	56.217	Debtors	54.482	65.817
233.838	233.838	Investments	195.721	195.721
322.681	**329.186**	**Total Financial Assets**	**278.668**	**290.003**
		Financial liabilities at amortised cost		
-64.101	-64.101	Creditors	-77.112	-77.112
-1.634	-1.634	Overdraft	-	-
-14.913	-14.913	Short Term Borrowing	-9.665	-9.665
-160.283	-208.406	PWLB	-160.272	-233.950
-173.356	-241.731	Other long term loan	-176.200	-280.591
-45.694	-80.103	PFI/Finance Lease liability	-44.745	-83.228
-459.981	**-610.888**	**Total Financial Liabilities**	**-467.994**	**-684.546**

Both the carrying and fair value amounts relating to the 31st March 2016 comparatives have been restated, as the value reported in last years published accounts included balance sheet items (such as Pension liability; provisions; receipts in advance and statutory debtors and creditors) that do not meet the recognition criteria for a financial instrument.

NB. The Fair Value of our PWLB and LOBO's (within the 'other long term loans' figure above) has been calculated using Level 2 valuation techniques – see our Accounting Policy 11 (page 44) for more details.

The fair value of the liabilities is higher than the carrying amount because the Authority's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2017) arising from a commitment to pay interest to lenders above current market rates.

As the Authority's long term investments (Iceland) have been adjusted in our accounts to reflect their discounted value, the fair value of the assets is the same as the carrying value. Had the fair value of the assets been lower than the carrying amount this would have shown a notional future loss (based on economic conditions at 31 March 2016) attributable to the commitment to receive interest below current market rates. However, this is not the case.

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

Short-term and long-term investments

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

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

2015/16 £millions		2016/17 £millions
	Investments through the Comfund for:	
3.250	– South West Councils	3.400
3.100	– Exmoor National Park	3.100
0.365	– Police Community Trust	0.365
0.025	– Police and Crime Commissioners Treasurers' Society	0.020
0.260	– Society of County Treasurers	0.225
0.200	– Society of Local Council Clerks	0.120
0.350	– Falcon Housing Trust	0.200
1.750	– Richard Huish College	1.750
0.100	– South West Regional Improvement and Efficiency Partnership	0.100
0.125	– Learning South West	-
0.080	– Wyvern Club	0.080
0.275	– King Alfred School	0.275
9.880		9.635
213.094	Our own short-term investments	170.339
222.974	Total temporary investments	179.974
0.683	Interest due on temporary investments	0.618
223.657	**Total short-term investments**	**180.592**
10.180	Our own long-term investments	15.129
0.001	Investment in South West One	-
10.181	**Total long-term investments**	**15.129**

Long-term debtors

2015/16 £millions		2016/17 £millions
	Loans to:	
0.440	Central Government (Academy loans)	0.360
0.135	Other authorities (mostly for housing)	0.117
4.390	Other organisations/individuals	4.085
-	Capital spending for probation to be funded in future years	-
0.022	Officers' car loans and leases	0.015
17.417	Leasing arrangements with Somerset Care Ltd	16.401
22.404		**20.978**

Short-term borrowing

2015/16 £millions		2016/17 £millions
-9.880	Other organisations investing in the Comfund	-9.635
-5.000	Other temporary borrowing	-
-0.033	Interest payable on temporary borrowing	-0.030
-14.913		**-9.665**

Long-term borrowing

2015/16 £millions		2016/17 £millions
	Loans due to be repaid:	
-0.018	within one year	-0.442
-0.018	between one and two years	-0.451
-0.054	between two and five years	-1.410
-20.030	between five and 10 years	-31.440
-309.550	after more than 10 years	-298.800
-3.969	Interest due on long-term borrowing	-3.929
-333.639		**-336.472**

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

Note 35: Nature and Extent of Risks Arising from Financial Instruments

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

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

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

Credit and Counterparty Risk

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

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

The Somerset County Council Lending Counterparty Criteria is proposed and approved annually to incorporate any changes in financial institutions or developments in the wider political, economic, or legal environment. The criteria in force during 2016/17 can be found under the reports for the County Council meeting 17 February 2016, agenda item 7, Paper D. The Treasury Management Policy Statement is also available. These can be accessed via the hyperlinks below.

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

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

- Credit Default Swaps and Government Bond Spreads;
- GDP, and Net Debt as a percentage of GDP for sovereign countries;
- Likelihood and strength of parental support;
- Banking resolution mechanisms for the restructure of failing financial institutions i.e. bail-in.
- Share Price;
- Market information on corporate developments and market sentiment towards the counterparties and sovereigns.

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

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

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

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

Risk rating provider	Risk rating	Amount outstanding £millions	Potential at risk £millions
Fitch	**Money-market funds**		
	AAA	0.860	0.001
	Local Authorities		
	AA	20.000	0.011
	UK banks		
	AA	22.000	0.012
	A	60.000	0.036
	Overseas Banks		
	AA	85.000	0.046
	A	15.000	0.009
	UK building societies		
	A	15.000	0.009
		217.860	**0.124**
S&P	**Money-market funds**		
	AAA	0.860	-
	Local Authorities		
	AAA	20.000	0.005
	UK banks		
	AA	22.000	0.004
	A	60.000	0.042
	Overseas Banks		
	AA	60.000	0.012
	A	40.000	0.028
	UK building societies		
	A	15.000	0.011
		217.860	**0.102**
Moody's	**Money-market funds**		
	AAA	0.860	-
	Local Authorities		
	Aa	20.000	0.011
	UK banks		
	Aa	42.000	0.010
	A	40.000	0.024
	Overseas Banks		
	Aa	100.000	0.024
	UK building societies		
	Aa	15.000	0.004
		217.860	**0.073**
Investment and highest risk for 2016/17		**217.860**	**0.124**
Investment and highest risk for 2015/16		**266.170**	**0.155**

Liquidity / Refinancing Risk

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

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

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

The Authority will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid over reliance on any one source of funding if this might jeopardise achievement of the above. This can be managed through a combination of careful planning of new loans taken out and (where it is economic to do so) restructuring debt or making early repayments. The market loan portfolio can limit the control of early repayments, and a strategy is in place to minimise the impact should counterparties exercise their right to increase the interest rate charged. The maturity analysis of financial liabilities is shown in Note 34.

Market Risk

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

Interest Rate Risk

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

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

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

As far as investments were concerned, the Authority sought to optimise returns commensurate with its objectives of security and liquidity. The UK Bank Rate dropped to 0.25% in August 2016, short term Money Market rates remained at even lower levels, having a significant impact on investment income. To mitigate the effects of this, identified core balances and reserves were lent for longer periods, where counterparty creditworthiness factors have been deemed appropriate. The aim was to create a portfolio of fixed rate deposits with a rolling maturity providing sufficient liquidity, whilst enabling advantage to be taken of the extra yield offered over longer periods. The rolling nature of maturities meant that if there were a sudden spike in interest rates, a sufficient proportion of the portfolio would be able to be reinvested as higher rates became available.

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

Legal and Regulatory Risk

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

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

Foreign Exchange Risk

The Authority has few financial assets and liabilities denominated in foreign currencies other than a few invoices in major currencies, namely Euros and US Dollars. Therefore there is little exposure to loss arising from exchange rates. To mitigate the minimal risk in movements in the Euro exchange rate, the Authority maintains an interest bearing Euro account.

Note 36: Inventories

	Consumable Stores		Musical Instruments		Book Stocks		Work In Progress		Total	Total
	2015/16 £millions (Restated)	2016/17 £millions	2015/16 £millions (Restated)	2016/17 £millions	2015/16 £millions (Restated)	2016/17 £millions	2015/16 £millions	2016/17 £millions	2015/16 £millions	2016/17 £millions
Balance outstanding at start of year	**0.310**	**0.287**	**0.885**	**0.854**	**0.522**	**6.207**	**0.017**	**0.000**	**1.734**	**7.348**
Purchases	0.315	0.494	0.009	0.007	6.620	0.925	0.000	0.000	**6.944**	**1.426**
Recognised as an expense in the year	-0.338	-0.534	-0.040	-0.001	-0.935	-0.651	-0.017	0.000	**-1.330**	**-1.186**
Balance outstanding at year-end	**0.287**	**0.247**	**0.854**	**0.860**	**6.207**	**6.481**	**0.000**	**0.000**	**7.348**	**7.588**

The 15/16 comparatives above have been restated to identify the different types of inventories held by the authority. The total inventory value is unchanged.

Note 37: Short term debtors and payments in advance

2015/16 £millions		2016/17 £millions
	Money owed to us by:	
	Government Departments:	
21.981	- Central Government	7.480
2.560	- Local Government	23.899
4.555	- NHS	4.041
0.002	- Public Corporations	-
0.015	Officers (for car loans and leasing arrangements)	0.008
8.498	Other organisations/individuals	9.762
6.282	Payments made in advance - Other organisations	17.959
0.013	Payments in Advance - Central Government	-
0.056	Payments in Advance - Local Government	0.796
43.962		**63.945**

Note 38: Short term creditors

2015/16 £millions		2016/17 £millions
	Money we owe to:	
	Government Departments:	
-4.828	- Central Government	-1.211
-14.138	- Local Government	-10.420
-2.127	- NHS	-0.611
-	- Public Corporations	-0.015
-42.631	Other organisations	-64.260
-8.879	Employees (under IAS19)	-8.454
-1.448	Receipts in advance - Other organisations	-3.372
-0.007	Receipts in advance - Central Government	-0.315
-0.123	Receipts in advance - OLA	-0.171
-	Receipts in advance - NHS	-0.080
-	Receipts in advance - Public Corporations	-0.005
-74.181		**-88.914**

Note 39: Other long term liabilities

2015/16 £millions		2016/17 £millions
-44.744	Finance Lease Liability - due in more than 1 year	-43.721
-688.337	Pensions liability	-835.772
-733.081		**-879.493**

Note 40: Provisions

2015/16 £millions		2016/17 £millions
-5.877	Total insurance provision (excl. MMI) set aside on 1 April	-5.532
	Add:	
-1.900	- premiums received from services	-5.028
	Less:	
0.887	- insurance premiums paid	0.785
0.722	- net claims paid	2.918
0.636	- professional and administrative costs	0.527
-	Transfer to reserves set aside for other purposes	-
-5.532	**Total insurance provision set aside on 31 March**	**-6.330**
	Non-Service	
-1.795	NDR Collection Fund - Provision for appeals	-1.462
	Highways	
-	Abortive costs	-0.021
	Children's Services	
-0.398	Care Leavers Grant	-0.478
-0.032	Youth Grants	-0.024
	Other Services	
-0.059	Skanska Hard FM Contract Amendment	-
-0.075	Mount Travers House Delapidation	-0.071
-7.891	**Total Provisions due in less than 1 year**	**-8.386**
	Municipal Mutual Insurance (MMI) Provision	
-0.298	Relating to asbestos claims paid by MMI	-0.342
-0.298	**Total Provisions due in more than 1 year**	**-0.342**

Insurance provision

The Authority’s own Insurance Fund directly covers a wide range of insurance risks. However, there are a very limited range of risks which are not covered by insurance and the Authority charges any loss which arises directly to the service concerned. At the end of the year we have £6.672 million of claims not yet finally agreed (£5.830 million in 2015/16) which we have not yet charged to the Fund, but have set aside this amount as a provision. The Authority also has an earmarked reserve for the Insurance Fund, which currently contains £1.308 million. As the Authority self-insures, we must put aside funds for any future claims as well as the current claims we must still pay.

Note 41: Revenue and Capital Grants/Contributions Receipt in Advance

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

Capital grants/contributions

2015/16 £millions		2016/17 £millions
	Capital Grant Receipts in Advance	
	Where the conditions are likely to be met within 1 year:	
-11.608	- Standards Fund (Schools Department for Education)	-18.268
-23.726	- Department for Transport	-5.045
-3.061	- Local Enterprise Partnership Capital Grant	-15.736
-1.506	- Other	-0.920
-39.901		**-39.969**
	Where the conditions are likely to be met in more than 1 year:	
-9.240	- Standards Fund (Schools Department for Education)	-4.019
-1.946	- Department for Transport	0.000
0.000	- Local Enterprise Partnership Capital Grant	-26.796
0.000	- Other	-0.182
-11.186		**-30.997**
	Capital Contribution Receipts in Advance (RIA)	
	Where the conditions are likely to be met within 1 year:	
-0.802	- Section 106 Contributions	-4.426
-0.308	- Other Contributions to our Capital Schemes	-0.585
-1.110		**-5.011**
	Where the conditions are likely to be met in more than 1 year:	
-8.319	- Section 106 Contributions	-9.218
-3.257	- Other Contributions to our Capital Schemes	-0.176
-11.576		**-9.394**
-41.011	Total Capital Grant/Contributions RIA's, where conditions are likely to be met within 1 year	-44.980
-22.762	Total Capital Grant/Contributions RIA's, where conditions are likely to be met in more than 1 year	-40.391
-63.773	**Total**	**-85.371**

Revenue grants

2015/16 £millions		2016/17 £millions
	Revenue Grant/Contributions Receipts in Advance	
	Where the conditions are likely to be met within 1 year:	
-0.278	- Central Government	-0.179
-0.061	- NHS	-0.256
-0.022	- Other Local Authorities	-
-1.348	- Other organisations	-1.316
-1.709		**-1.751**
	Where the conditions are likely to be met in more than 1 year:	
-5.290	- Other organisations	-5.938
-5.290		**-5.938**
-6.999		**-7.689**

Note 42: Usable Reserves

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

2015/16 £millions		2016/17 £millions
	General Fund - Revenue	
25.530	General Fund - Schools	21.340
21.010	General Fund - Other	20.157
37.465	Earmarked Reserves - set aside for revenue purposes	8.135
84.005		49.632
	Other Usable Capital Reserves	
21.341	Capital Receipts Reserve	3.405
4.081	Capital Grants Unapplied Reserve	3.190
5.307	Capital Contributions Unapplied Reserve	4.820
30.729		11.415
114.734	**Total Usable Reserves**	**61.047**

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 59).

Note 43: Unusable Reserves

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

2015/16 £millions		2016/17 £millions
186.655	Revaluation Reserve	191.769
359.120	Capital Adjustment Account	381.514
17.446	Deferred Capital Receipts Reserve	16.430
-688.337	Pensions Reserve	-835.772
3.530	Collection Fund Adjustment Account	4.691
-8.879	Accumulated Compensated Absences Adjustment Account	-8.454
-130.465	**Total Unusable Reserves**	**-249.822**

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.

2015/16 £millions		2016/17 £millions	2016/17 £millions
174.071	**Balance at 1 April**		**186.655**
25.824	Upward revaluation of assets	23.480	
-5.452	Revaluation/Impairment (losses) not charged to the Surplus/Deficit on the Provision of Services	-6.800	
20.372	Surplus/Deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services		**16.680**
-4.395	Difference between fair value depreciation and historical cost dep'n	-5.121	
-3.393	Accumulated gains on asset disposals	-6.445	
-7.788	Amount written off to the Capital Adjustment Account		**-11.566**
186.655	**Balance at 31 March**		**191.769**

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

2015/16 £millions			2016/17 £millions
338.194	**Balance at 1 April**		**359.120**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
-41.538	- Charges for depreciation and impairment of non current assets/assets held for sale	-44.920	
-6.123	- Revaluation losses on Property, Plant and Equipment	-5.285	
-0.159	- Amortisation of intangible assets	-0.278	
-0.051	- Reversal/(Increase) of Icelandic impairment	-	
-39.214	- Revenue expenditure funded from capital under statute	-58.381	
0.000	- Flexible use of capital receipts	-2.388	
-5.659	- 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	-15.222	
-92.744			-126.474
7.788	Adjusting amounts written out of the Revaluation Reserve		11.566
-84.956	Net written out amount of the cost of non current assets consumed in the year		-114.908
	Capital Financing applied in the year:		
6.159	- use of the Capital Receipts Reserve to finance new capital expenditure	18.770	
85.164	- Capital grants and contributions that have been applied to capital financing	106.239	
5.924	- Statutory provision for the financing of capital investment charged against the General Fund balance	1.283	
8.584	- Capital expenditure charged against the General Fund balance	8.622	
	- Flexible use of capital receipts	2.388	
105.831			137.302
0.051	Repayment made in year to reduce the capitalised Icelandic investment impairment		-
359.120	**Balance at 31 March**		**381.514**

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.

2015/16 £millions		2016/17 £millions
18.333	**Balance at 1 April**	**17.446**
-0.028	Amounts transferred to the Capital Receipts Reserve during the year	-0.028
	Other movements:	
-0.859	Cancellation of finance leases	-0.988
17.446	**Balance at 31 March**	**16.430**

The cancellation of the finance lease relates to Milton House which was surplus to Somerset Care Ltd.'s requirements and therefore returned to the Authority.

Pensions Reserve

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

2015/16 £millions		2016/17 £millions
-742.572	**Balance at 1 April**	**-688.337**
89.119	Remeasurement gains / losses (-) on pension assets/liabilities	-118.163
-65.926	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	-62.883
31.042	Employer's pensions contributions and direct payments to pensioners payable in the year	33.611
-688.337	**Balance at 31 March**	**-835.772**

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.

2015/16 £millions		2016/17 £millions
3.971	**Balance at 1 April**	**3.530**
-0.233	Amount by which Council Tax income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax income calculated for the year in accordance with statutory requirements	-0.700
-0.208	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	1.861
3.530	**Balance at 31 March**	**4.691**

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.

2015/16 £millions		2016/17 £millions
-8.998	**Balance at 1 April**	**-8.879**
8.998	Settlement or cancellation of accrual made at the end of the preceding year	8.879
-8.879	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	-8.454
-8.879	**Balance at 31 March**	**-8.454**

Note 44: Cash and Cash Equivalents

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

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

2015/16 £millions		2016/17 £millions
5.961	Net Cash in hand	5.605
33.170	Short term Investment (initial maturity term less than 3 months)	22.860
39.131	**Cash and cash equivalents sub total**	**28.465**
-1.634	Bank overdraft	-
37.497	**Cash and cash equivalents at the end of the reporting period**	**28.465**

Note 45: Cash Flow Statement – Operating Activities

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

2015/16 £millions		2016/17 £millions
50.290	Net surplus(-)/deficit on the provision of services	**71.561**
-41.697	Depreciation and amortisation	-45.079
-6.123	Impairment and downward valuations	-5.404
-34.884	IAS 19 - Pension Liability	-29.272
-6.518	Carrying amount of non-current assets sold	-16.211
-14.223	Movement in working capital	12.119
-103.445		**-83.847**
86.003	Adjustment for items that are investing or financing activities	108.054
32.848		**95.768**

The cash flows for operating activities include the following items:

2015/16 (Restated) £millions		2016/17 £millions
-3.353	Interest received	-3.057
19.678	Interest paid	19.344

Note 46: Cash Flow Statement – Investing Activities

2015/16 £millions		2016/17 £millions
72.600	Purchase of property, plant and equipment, investment property and intangible assets	63.561
135.000	Purchase of short term and long term investments	145.000
0.186	Other payments for investing activities	0.492
-3.713	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	-3.222
-101.210	Proceeds from short term and long term investments	-183.052
-101.295	Other receipts from investing activities	-112.840
1.568	**Net cash flows from investing activities**	**-90.061**

Note 47: Cash Flow Statement – Financing Activities

2015/16 £millions		2016/17 £millions
-5.528	Cash receipts of short and long term borrowing	-3.134
-	Repayments of short term and long term borrowing	5.51
0.845	Other payments for financing activities	0.950
-4.683	**Net cash flows from financing activities**	**3.325**

Note 48: Capital Expenditure and Capital Financing

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

2015/16 £millions		2016/17 £millions
346.376	Opening Capital Financing Requirement	345.638
	Capital Investment:	
66.236	- Property, Plant and Equipment	81.422
0.097	- Intangible Assets	4.468
0.402	- Heritage Asset	-
0.031	- Current Assets Held for Sale	-
39.214	- Revenue Expenditure Funded from Capital Under Statute	58.382
-0.887	Reduction of long-term capital debtors	-0.945
0.051	Capitalised Icelandic Investment Impairment/(Reversal)	-
-	Expenditure funded under the Capital Receipts Flexibility Directive	2.388
	Sources of Finance	
-6.159	- Capital receipts	-18.770
-	- Capital Receipts under the Flexibility Directive	-2.388
-85.167	- Government grants and contributions	-106.239
	- Sums set aside from revenue:	
-8.581	- Direct revenue contributions	-8.622
-5.924	- MRP/loans fund principal	-1.283
-0.051	- Capitalised Icelandic Impairment Repayment	-
345.638	**Closing Capital Financing Requirement**	**354.051**

2015/16 £millions		2016/17 £millions
	Explanation of movements in year	
-5.079	Increase/Decrease (-) in underlying need to borrow (supported by government financial assistance)	-0.091
4.341	Increase/Decrease (-) in underlying need to borrow (unsupported by government financial assistance)	8.504
-0.738	**Increase/Decrease (-) in Capital Financing Requirement**	**8.413**

Note 49: Contingent Liabilities

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

The Authority continues to have 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).

The Authority has provided a guarantee to the Somerset County Council Pension Fund for the South West Audit Partnership (SWAP) in relation to the pension deficit of our ex-employees who transferred to SWAP. The guarantee indemnifies the Fund should SWAP be unable to meet their employer obligations. As at the 31st March 2017, our share of the SWAP pension deficit (calculated for accounting rather than funding purposes) was estimated at £0.953m.

The Authority has also provided (for a charge) a number of pension bonds for outsourced functions where ex-employees have transferred to a new entity as part of the arrangement. As at the 31st March 2017, the total of the bonds provided was £1.625m. The bonds will only be called should the new employers be unable to meet their pension obligations.

Note 50: Trust Funds

The Authority has not included the funds, which it manages on behalf of trusts, on its consolidated balance sheet because the money does not belong to us. As of 31 March 2017, the only trust managed by the authority was the Fieldhouse Trust. The Authority is the only trustee of the Field House Trust. We can only use this money for helping the elderly people of Somerset, with preference for the elderly of Shepton Mallet. There is an extract from the Field House Trust accounts below:

2015/16 £millions		2016/17 £millions
-0.054	Total income	-0.054
0.078	Total spending	0.077
0.024	**(Surplus)/ Deficit**	**0.023**
0.608	Value of fund - brought forward	0.584
-0.024	Movement in year	-0.023
0.584	**Total value of the fund**	**0.561**

Note 51: Pension Schemes

Participation in Pension Schemes

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

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

- The Local Government Pension Scheme (LGPS), administered locally by the Authority, is a defined benefit statutory scheme where benefits accrued up to 31 March 2017 are based on final salary and length of service on retirement. Changes to the LGPS came into effect from 1 April 2014 and any benefits accrued from this date will be based on career average re-valued salary.

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

- The 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.

- 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;

<u>Defined Contribution Schemes:</u>

Teachers' Pension Scheme

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

2015/16 £millions	%		2016/17 £millions	%
12.276	15.49	Pension costs charged to the accounts	12.708	16.48
0.030	0.04	Discretionary payments made	0.033	0.04

National Employment Savings Trust

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

2015/16 £millions	%		2016/17 £millions	%
0.011	1.00	Pension costs charged to the accounts	0.011	1.00

Defined Benefit Schemes:

Unfunded Teachers Pensions

The Authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and included within the tables below.

Local Government Pension Scheme

Characteristics and Associated Risks

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

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

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

The most recent actuarial valuation of the Fund was carried out as at 31 March 2016, which 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.

At the 2016 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 2019 valuation, should the employer remain in the pool. Each employer within the pool pays a contribution rate based on the cost of benefits of the combined membership of the pool. The Authority recognises the cost of retirement benefits in the net cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge required to be made against the council tax is based on the cash payable in the year, so the real cost of retirement benefit is reversed out in the statement of Movement in Reserves.

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

	Local Government Pension Scheme & Unfunded Benefit Arrangements - Liabilities	
	2015/16 £millions	**2016/17 £millions**
Comprehensive Income and Expenditure Statement		
Net Cost of Services:		
- current service cost	45.069	38.984
- past service cost and gains/losses arising from settlements	-4.255	-1.521
Financing and Investment Income and Expenditure:		
- net interest expense	25.112	25.420
Total Post-employment Benefit Charged to the Surplus or Deficit on the Provision of Services	**65.926**	**62.883**
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)	19.684	-154.482
- actuarial (gains) and losses arising on changes in demograpic assumptions	0.000	-33.353
- actuarial (gains) and losses arising on changes in financial assumptions	-111.526	335.486
- other actuarial (gains)/losses on plan assets	0.000	-31.287
- experience (gain)/loss on defined benefit obligation	2.723	1.799
	-89.119	**118.163**
Total Post-employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**-23.193**	**181.046**
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	**-65.926**	**-62.883**
Actual amount charged against the General Fund Balance for pensions in the year:		
- employers' contributions payable to the scheme	**31.042**	**33.611**

Pensions Assets and Liabilities Recognised in the Balance Sheet

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

	Local Government Pension Scheme & Unfunded Benefit Arrangements - Liabilities		
	2014/15 £millions	**2015/16 £millions**	**2016/17 £millions**
Present value of the defined benefit obligation:			
- Funded obligation	-1,428.576	-1,371.544	-1,726.348
- Unfunded obligation	-47.744	-47.022	-48.997
	-1,476.320	-1,418.566	-1,775.345
Fair value of plan assets	733.748	730.229	939.573
Net liability arising from defined benefit obligation	**-742.572**	**-688.337**	**-835.772**

The net liability shows the underlying commitments that the Authority has in the long run to pay retirement benefits. The total liability of £835.772 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 2017 has increased by £147.435 million from 31 March 2016. This is due to changes in the financial assumptions used by the Fund Actuary during the year. For the year ending 31st March 2017 the discount rate based on the Merrill Lynch AA rated corporate bond has fallen quite significantly, since the previous accounting period which has placed a higher value on the liabilities. It is important to note that the deficit figure reported above is prepared only for the accounting requirements of IAS19. They are not relevant for funding purposes or for other statutory purposed under UK pensions legislation.

Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets:	2015/16 £millions	2016/17 £millions
Opening balance at 1 April	**733.748**	**730.229**
Interest income	24.271	26.366
Remeasurement gain/(loss):		
- return on plan assets (excluding the amount included in the net interest expense	-19.684	154.482
Other actuarial gains/(losses)	0.000	31.287
Employer contributions - funded	27.914	30.524
Employer contributions - unfunded	3.128	3.087
Contributions by scheme participants	8.763	9.031
Benefits paid (including unfunded)	-42.243	-44.183
Other	-5.668	-1.250
Closing balance at 31 March	**730.229**	**939.573**

The actual rate of return identified in the table above for 2016/17 represents a gain of 21.16% of plan assets (as at 1st April 2016).

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

Fair Value of Scheme Assets	**2016/17 £millions**
Cash and cash equivalents	37.582
Equities:	
- Quoted	230.195
- Standard Life Smaller Companies Fund	4.698
Private Equity:	
- Neuberger Berman Crossroads 2010 Fund	6.577
- Neuberger Berman Crossroads XX Fund	4.698
- Neuberger Berman Crossroads XXI Fund	2.818
- South West Regional Venture Fund	0.940
Overseas Equities:	
- North America	192.612
- Europe	94.897
- Japan	20.671
- Pacific (excluding Japan)	42.281
- Emerging market	1.879
- Nomura Japan Fund	29.127
- Pioneer Emerging Markets Fund	39.462
	670.855
Bonds:	
- UK Fixed Interest - Public Sector	20.671
- UK Fixed Interest - Corporate Sector Investment Grade	38.522
'- UK Fixed Interest - Corporate Sector High Yield	4.698
- UK Index Linked - Public Sector	33.825
- Overseas - Corporate Sector Investment Grade	34.764
- Overseas - Corporate Sector High Yield	13.154
- Overseas - index linked - public sector	0.940
	146.574
Property:	
- UK Property Funds	83.622
- Overseas Property Funds	0.940
	84.562
Total assets	**939.573**

Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation):	2015/16	2016/17
	£millions	£millions
Opening balance at 1 April	**-1,476.320**	**-1,418.566**
Current service cost	-45.069	-38.984
Interest cost	-49.383	-51.786
Contributions by scheme participants	-8.763	-9.031
Past service costs, including curtailments	-1.493	-1.161
Settlements	11.416	3.932
Benefits paid (including unfunded)	42.243	44.183
Remeasurement gains and (losses):		
- actuarial gains/(losses) arising from changes in demographic assumptions	0.000	33.353
- actuarial gains/(losses) arising from changes in financial assumptions	111.526	-335.486
- experience gain/(loss) on defined benefit obligation	-2.723	-1.799
Closing balance at 31 March	**-1,418.566**	**-1,775.345**

Impact on the Authority's Cashflows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Authority has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 25 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31 March 2019. 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. It is estimated the Authority will pay £34.189m contributions to the scheme in 2017/18.

The weighted average duration of the defined benefit obligation for scheme members is 20 years for 2016/17 (20 years in 2015/16).

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 2017, by rolling forward the value of the liabilities calculated for the Triennial valuation as at 31 March 2016 allowing for the different financial assumptions required under IAS19. A similar roll-forward approach was taken for the report as at 31 March 2017.

The principal assumptions used by the actuary have been:

2015/16		2016/17
	Long-term expected rate of return on assets in the scheme:	
1%	Expected return based on single net interest cost	25%
	Mortality Assumptions:	
	Longevity (in years) at 65 for current pensioners:	
23.8	- Men	23.9
26.2	- Women	25.0
	Longevity (in years) at 65 for future pensioners:	
26.1	- Men	26.1
28.5	- Women	27.4
2.4%	Rate of Inflation (CPI)	2.7%
4.2%	Rate of increase in salaries	4.2%
2.4%	Rate of increase in pensions	2.7%
3.7%	Rate of discounting scheme liabilities	2.8%

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

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

Sensitivity Analysis	£000's	£000's	£000's
Adjustment to discount rate	**+0.1%**	**0.0%**	**-0.1%**
Present value of total obligation	1,741,778	1,775,345	1,809,593
Projected service cost	55,652	57,058	58,501
Adjustment to long term salary increase	**+0.1%**	**0.0%**	**-0.1%**
Present value of total obligation	1,779,790	1,775,345	1,770,938
Projected service cost	57,058	57,058	57,058
Adjustment to pension increases and deferred revaluation	**+0.1%**	**0.0%**	**-0.1%**
Present value of total obligation	1,805,148	1,775,345	1,746,121
Projected service cost	58,501	57,058	55,649
Adjustment to mortality age rating assumption	**+1 Year**	**None**	**-1 Year**
Present value of total obligation	1,842,177	1,775,345	1,711,014
Projected service cost	58,878	57,058	55,294

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

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

2015/16 £millions	2015/16 %		2016/17 £millions	2016/17 %
0.153	14.30	Pension costs charged to the accounts	0.156	14.30
0.007	0.70	Discretionary payments made	0.007	0.67

Group accounts

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

Futures for Somerset

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

The company's accounts can be obtained from:
Futures for Somerset
1st Floor Morgan House
Mount Street
Bridgwater
Somerset
TA6 3ER

Maintained Schools

The Authority's single entity financial statements include all income and expenditure of the Authority's maintained schools as if it were the income and expenditure of the Authority. Operational Plant and Equipment is also recognised for these schools. For the treatment of Schools Non-Current Assets please refer to Accounting Policy 18.

The composition of the schools are shown below (where a school converted to Academy in year they are not shown in the number count but the income and expenditure is classified within its previous status). Where income and expenditure is recorded centrally for Primary, Secondary and Special schools, this has been apportioned on a proportional basis to the level of VC, Community or VA status.

Type of School	No of Schools	Expenditure £millions	Income £millions
Community Primary	63	78.156	-64.990
Community Secondary	7	33.450	-35.210
Commuity Special (includes PRUs)	10	24.986	-25.047
VC Primary	61	55.344	-55.208
VC Secondary	1	4.058	-4.151
VA Primary	34	33.881	-34.297
Foundation Trust Primary	4	2.995	-1.723
Foundation Trust Secondary	2	10.497	-5.027
Foundation Trust Special Schools	2	3.226	-2.253

The Pension Fund

Local Government Pension Scheme (LGPS FUND)

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

Who the pension fund covers

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

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

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

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

The valuation as at 31 March 2016 showed that the funding position had improved with the fund's assets covering 77% of the fund's liabilities. The new common contribution rate to be paid from April 2017 is increased to 22.8% and is made up of 15.0% for future service and 7.8% for deficit funding.

The pension and lump-sum payments that employees receive when they retire are linked to their final year's salary for pre-31 March 2014 service and to career average re-valued earnings (CARE) for service since 1st April 2014, along with how long they have worked for an employer within the fund. Increases in pension payments linked to inflation come out of the fund.

Fund Account

2015/2016 £ millions	2015/2016 £ millions		2016/2017 £ millions	2016/2017 £ millions	Notes
		Contributions and other income			
20.651		Contributions from employees	20.892		1
62.302		Contributions from employers	69.123		1
1.387		Recoveries from member organisations	2.851		1
3.238		Transfer values received	2.450		2
87.578			**95.316**		
		Less benefits and other payments			
-64.395		Recurring pensions	-68.168		1
-12.323		Lump sum on retirement	-13.429		1
-2.070		Lump sum on death	-1.568		1
-4.755		Transfer values paid	-3.423		2
-0.418		Refund of contributions to leavers	-0.401		3
-83.961			**-86.989**		
	3.617	**Net additions from dealings with members**		**8.327**	
		Management Expenses			
-1.305		Administrative expenses	-1.157		4
-4.302		Investment management expenses	-4.964		5
-0.650		Oversight and governance expenses	-0.740		6
-6.257	**-6.257**		**-6.861**	**-6.861**	
		Investment income			
40.947		Investment income received	48.677		7
4.603		Investment income accrued	4.364		7
-0.756		Less irrecoverable tax	-0.884		
0.000		Other income (such as commission)	0.009		
44.794			**52.166**		
		Change in market value of investments			
26.168		Realised profit or loss	55.640		10
-65.516		Unrealised profit or loss	262.909		10
-39.348			**318.549**		
	5.446	**Net return on investments**		**370.715**	
	2.806	**Net increase in the net assets available for benefits during the year**		**372.181**	
		Change in actuarial present value of promised retirement benefits			
75.629		Vested benefits	-773.469		11
21.444		Non-vested benefits	-29.076		11
	97.073	**Net change in present value of promised benefits**		**-802.545**	
	99.879	**Net increase/(decrease) in the fund during the year**		**-430.364**	
	-1,433.985	Add net liabilities at beginning of year		-1,334.106	
	-1,334.106	**Net liabilities at end of year**		**-1,764.470**	

Net Asset Statement

On 31 March 2016 £ millions		On 31 March 2017 £ millions	Notes
	Investment assets and liabilities		
1,593.098	Investment assets	1,966.614	8
-0.875	Investment liabilities	-0.142	8
1.772	Other investment balances	0.048	12
	Current assets		
4.920	Contributions due from employers	4.803	
0.002	Cash at bank	0.009	
0.608	Other debtors	1.023	
	Current liabilities		
0.000	Unpaid benefits	0.000	
0.000	Bank overdraft	0.000	
-1.507	Other creditors	-2.156	
1,598.018	**Net assets of the scheme available to fund benefits at end of year**	**1,970.199**	
	Actuarial present value of promised retirement benefits		
-2,808.169	Vested benefits	-3,581.638	11
-123.955	Non-vested benefits	-153.031	11
-1,334.106	**Net liabilities at end of year**	**-1,764.470**	

Accounting policies

The Pension Fund financial statements have also been prepared in line with the Code of Practice on Local Authority Accounting in the UK 2016/17, which is based upon the International Financial Reporting Standard (IFRS), as amended for the UK public sector.

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

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

- fixed interest securities are valued excluding accrued income;

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

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

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

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

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

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

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

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

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

- transfer values are accounted for when money is received or paid;

- the fund has significant investments overseas. The value of these investments in the net asset statement is converted into sterling at the exchange rates on 31 March. Income receipts, and purchases and sales of overseas investments, are normally converted into sterling at or about the date of each transaction and are accounted for using the actual exchange rate received. Where the transaction is not linked to a foreign exchange transaction to convert to sterling the exchange rate on the day of transaction is used to convert the transaction into sterling for accounting purposes; and

- Cash and cash equivalents on the Net Asset statement are restricted to ‘cash at bank’ and ‘bank overdraft’. All cash (overdraft) not in the pensions fund’s standard bank account with NatWest is treated as an Investment asset and is shown in note 8.

Notes to the Accounts

Note 1: Contributions and benefits

	Somerset County Council £ millions	Other scheduled employers £ millions	Admitted employers £ millions	Total £ millions
Employees' contributions				
- Normal	8.783	10.300	1.337	**20.420**
- Additional	0.268	0.199	0.005	**0.472**
Total	9.051	10.499	1.342	**20.892**
Employers' contributions				
- Normal	19.098	20.107	2.824	**42.029**
- Augmentation	1.070	0.531	0.153	**1.754**
- Deficit funding	10.772	10.405	4.163	**25.340**
Total	30.940	31.043	7.140	**69.123**
Recurring pension and lump sum payments	-41.549	-34.345	-7.271	**-83.165**
Money recovered from member organisations	1.563	1.274	0.014	**2.851**
	0.005	**8.471**	**1.225**	**9.701**

Note 1: Contributions and benefits (continued)

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
County council			
Somerset	9.051	30.940	39.991
Police & Crime Commissioner			
Avon & Somerset	4.510	10.550	15.060
District councils			
Mendip	0.267	1.099	1.366
Sedgemoor	0.576	2.134	2.710
South Somerset	0.725	2.607	3.332
Taunton Deane	0.888	3.047	3.935
West Somerset	0.000	0.310	0.310
Parish and town councils			
Axbridge Town Council	0.001	0.003	0.004
Berrow Parish Council	0.001	0.003	0.004
Burnham & Highbridge Town Council	0.005	0.014	0.019
Burnham & Highbridge Burial Board	0.005	0.017	0.022
Castle Cary Town Council	0.004	0.005	0.009
Chard Town Council	0.012	0.040	0.052
Cheddar Parish Council	0.002	0.006	0.008
Creech St Michael Parish Council	0.001	0.002	0.003
Crewkerne Town Council & Burial Board	0.009	0.027	0.036
Frome Town Council	0.027	0.074	0.101
Glastonbury Town Council	0.009	0.025	0.034
Ilminster Town Council	0.005	0.017	0.022
Langport Town Council	0.001	0.005	0.006
Lower Brue Drainage Board	0.034	0.091	0.125
Minehead Town Council	0.005	0.017	0.022
Nether Stowey Parish Council	0.001	0.004	0.005
Parret Drainage Board	0.004	0.014	0.018
Shepton Mallet Town Council	0.001	0.003	0.004
Somerton Town Council	0.005	0.014	0.019
Street Parish Council	0.003	0.009	0.012
Watchet Town Council	0.001	0.003	0.004
Wellington Town Council	0.001	0.004	0.005
Wells Burial Board & Parish Council	0.024	0.037	0.061
Williton Parish Council	0.001	0.004	0.005
Wincanton Town Council	0.003	0.009	0.012
Yeovil Town Council	0.012	0.032	0.044
Other bodies			
Avon and Somerset Magistrates Courts	0.000	1.123	1.123
Exmoor National Park	0.121	0.318	0.439
Further-education colleges			
Bridgwater College	0.691	1.747	2.438
Richard Huish Sixth Form College	0.121	0.292	0.413
Somerset College of Art and Technology	0.061	0.221	0.282
Strode College	0.143	0.374	0.517
Yeovil College	0.176	0.505	0.681

Table continued on next page

Note 1: Contributions and benefits (continued)

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
Academies			
Ansford Academy	0.028	0.120	0.148
Avishayes Academy	0.024	0.055	0.079
Axbridge Academy	0.011	0.036	0.047
Bath & Wells Academy Trust	0.169	0.534	0.703
Bishop Fox’s Academy	0.050	0.149	0.199
Bridgwater College Academy	0.108	0.265	0.373
Brookside Academy	0.059	0.213	0.272
Bruton Sexey’s School	0.048	0.135	0.183
Brymore Academy	0.054	0.166	0.220
Buckland St. Mary Church of England School	0.003	0.009	0.012
Buckler’s Mead Academy	0.047	0.145	0.192
Buckler’s Mead Leisure	0.002	0.008	0.010
Castle Academy	0.065	0.175	0.240
Castle Primary School	0.009	0.028	0.037
Courtfields Academy	0.043	0.132	0.175
Crispin Academy	0.046	0.138	0.184
Danesfield Academy	0.023	0.070	0.093
East Brent School	0.002	0.005	0.007
Enmore Academy	0.006	0.019	0.025
Hambridge Primary School	0.013	0.043	0.056
Hamp Academy	0.020	0.064	0.084
Hayesdown Academy	0.013	0.043	0.056
Haygrove Academy	0.063	0.161	0.224
Holyrood Academy	0.062	0.186	0.248
Horrington Primary School	0.007	0.021	0.028
Hugh Sexey's School	0.011	0.035	0.046
Huish Academy	0.021	0.067	0.088
Huish Episcopi Academy	0.072	0.216	0.288
Huish Episcopi Primary Academy	0.008	0.025	0.033
King Ina (Monteclefe)	0.018	0.058	0.076
Kings of Wessex Academy	0.049	0.139	0.188
Kings of Wessex Leisure	0.014	0.032	0.046
Kingsmead Academy	0.044	0.132	0.176
Lympsham School	0.005	0.012	0.017
Maiden Beech Academy	0.027	0.083	0.110
Manor Court Primary School	0.025	0.079	0.104
Mark Academy	0.005	0.015	0.020

Table continued on next page

Note 1: Contributions and benefits (continued)

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
Academies (continued)			
Mendip School	0.009	0.034	0.043
Middlezoy Primary School	0.005	0.014	0.019
Minehead First School	0.021	0.041	0.062
Minehead Middle School	0.040	0.119	0.159
Minerva Primary School	0.006	0.019	0.025
North Town Academy	0.023	0.075	0.098
Nunney First School	0.003	0.008	0.011
Oakfield Academy	0.035	0.107	0.142
Old Cleeve Academy	0.010	0.032	0.042
Othery Primary School	0.004	0.012	0.016
Pen Mill Academy	0.018	0.058	0.076
Preston Academy	0.044	0.136	0.180
Preston C of E Primary School	0.023	0.073	0.096
Priorswood Academy	0.015	0.049	0.064
Redstart Academy	0.028	0.077	0.105
Selwood Academy	0.032	0.102	0.134
St. Dunstan’s Academy	0.022	0.076	0.098
St. Cuthbert's Academy	0.008	0.027	0.035
St. Michael's Academy	0.016	0.050	0.066
St. Michael's Church of England School	0.006	0.019	0.025
St. Peter's Academy	0.008	0.026	0.034
Stanchester Academy	0.031	0.096	0.127
Steiner Academy, Frome	0.016	0.048	0.064
Tatworth Academy	0.007	0.022	0.029
Taunton Academy	0.031	0.112	0.143
The Blue School, Wells	0.088	0.258	0.346
Weare Academy	0.008	0.027	0.035
Wedmore Academy	0.017	0.051	0.068
Wellesley Park Primary School	0.016	0.054	0.070
West Somerset Community College	0.066	0.258	0.324
Westfield Academy	0.053	0.157	0.210
Whitstone Academy	0.031	0.095	0.126
Willowdown Academy	0.017	0.052	0.069
Woolavington Academy	0.012	0.040	0.052
Total other scheduled employers	10.499	31.043	41.542

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Note 1: Contributions and benefits (continued)

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
Admitted bodies			
Aster Communities Ltd	0.045	0.247	0.292
BAM FM	0.008	0.022	0.030
Care Focus Somerset Ltd	0.004	0.009	0.013
Churchill Contract Services	0.022	0.078	0.100
Edward and Ward Ltd	0.017	0.060	0.077
Glen Cleaning Company Ltd	0.001	0.002	0.003
Homes in Sedgemoor	0.090	0.241	0.331
ICM	0.009	0.030	0.039
Learning & Skills Network	0.000	0.784	0.784
Learning South West	0.000	0.001	0.001
Leisure East Devon	0.011	0.021	0.032
Magna West Somerset Housing Association	0.067	0.235	0.302
Mama Bear's	0.002	0.007	0.009
May Gurney Ltd	0.026	0.069	0.095
MD Building Services	0.031	0.081	0.112
MITIE	0.005	0.018	0.023
National Autistic Society	0.009	0.051	0.060
NSL Ltd	0.023	0.062	0.085
SHAL Housing Ltd	0.008	2.090	2.098
1610 Ltd	0.034	0.080	0.114
SASP	0.012	0.018	0.030
Society of Local Council Clerks	0.024	0.067	0.091
Somerset Care Ltd	0.043	0.341	0.384
Somerset Skills & Learning	0.108	0.249	0.357
South West Audit Partnership	0.104	0.319	0.423
South West Heritage	0.077	0.182	0.259
South West Provincial Councils	0.028	0.203	0.231
Taylor Shaw Ltd	0.005	0.016	0.021
Tone Leisure Ltd	0.075	0.144	0.219
Wyvern Nursery Ltd	0.017	0.031	0.048
Yarlington Housing Group	0.437	1.382	1.819
Total admitted employers	1.342	7.140	8.482
Total	**20.892**	**69.123**	**90.015**

Note 2: Transfer values

2015/2016 £ millions		2016/2017 £ millions
0.000	Group transfer values received	0.000
3.238	Individual transfer values received	2.451
3.238		**2.451**
-1.330	Group transfer values paid	0.000
-3.425	Individual transfer values paid	-3.423
-4.755		**-3.423**

Note 3: Refunds

2015/2016 £ millions		2016/2017 £ millions
-0.222	Contributions refunded to members who leave service	-0.278
-0.001	Interest accumulated on refunds agreed in the past	-0.004
-0.223		**-0.282**
-0.231	Deductions from contributions equivalent premium	-0.147
0.036	Less payments to Department for Work and Pensions contributions equivalent premium	0.028
-0.418		**-0.401**

Note 4: Administrative expenses

2015/2016 £ millions		2016/2017 £ millions
-0.123	Benefits administration costs charged by Somerset CC	-0.082
-1.168	Benefits administration costs charged by Devon CC	-1.048
-1.291		**-1.130**
0.000	Legal advice costs charged by Somerset CC	0.000
-0.014	External legal advice	-0.027
-0.014		**-0.027**
0.000	Other expenses	0.000
-1.305		**-1.157**

Note 5: Investment management expenses

2015/2016 £ millions		2016/2017 £ millions
	Fund manager fees	
-0.261	Aviva	-0.292
-0.574	Jupiter*	-0.821
-0.144	Maple-Brown Abbott*	-0.326
-0.180	Pioneer	-0.211
-0.042	Somerset County Council	-0.041
-1.155	Standard Life*	-1.317
-0.549	Other fund managers	-0.664
-2.905		**-3.672**
	Other expenses	
-0.886	Transaction costs	-0.971
-0.043	Custody fees	-0.049
-0.468	Property unit trust managers' fees	-0.272
-1.397		**-1.292**
-4.302		**-4.964**

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

*The fund manager fees for these managers may include performance related fees. The total performance related fees attributable to the 2016/2017 financial year are £557,000 (£166,000 in 2015/2016).

The transaction costs shown above are broken down as follows:

2015/2016 £ millions Broker comm-issions	2015/2016 £ millions Taxes and Fees	Manager	Asset Class	2016/2017 £ millions Broker comm-issions	2016/2017 £ millions Taxes and Fees
		Purchase Costs			
0.014	0.026	Somerset County Council	Passive global equity	0.012	0.022
0.136	0.468	Standard Life	UK equity	0.143	0.539
0.004	0.000	Somerset County Council	Passive US equity	0.004	0.000
0.023	0.011	Jupiter	European equity	0.017	0.019
0.000	0.000	Nomura	Japanese equity	0.000	0.000
0.021	0.002	Maple-Brown Abbott	Far East equity	0.015	0.002
0.000	0.000	Pioneer	Emerging market equity	0.000	0.000
0.000	0.000	Standard Life	Bonds	0.000	0.000
0.000	0.000	Aviva	Property	0.000	0.000
0.000	0.000	Neuberger Berman	Global private equity	0.000	0.000
0.000	0.000	TVP	UK venture capital	0.000	0.000
0.000	0.000	Somerset County Council	Cash	0.000	0.000
0.198	0.507			0.191	0.582
		Sales Costs			
0.013	0.008	Somerset County Council	Passive global equity	0.012	0.008
0.112	0.000	Standard Life	UK equity	0.129	0.001
0.006	0.000	Somerset County Council	Passive US equity	0.006	0.001
0.018	0.000	Jupiter	European equity	0.019	0.000
0.000	0.000	Nomura	Japanese equity	0.000	0.000
0.017	0.007	Maple-Brown Abbott	Far East equity	0.013	0.008
0.000	0.000	Pioneer	Emerging market equity	0.000	0.000
0.000	0.000	Standard Life	Bonds	0.000	0.000
0.000	0.000	Aviva	Property	0.000	0.000
0.000	0.000	Neuberger Berman	Global private equity	0.000	0.000
0.000	0.000	TVP	UK venture capital	0.000	0.000
0.000	0.000	Somerset County Council	Cash	0.000	0.000
0.166	0.015			0.179	0.018
0.364	**0.522**			**0.370**	**0.600**
	0.886				**0.970**

In addition to these costs, indirect costs are incurred through bid/offer spread on investment purchases. No attempt has been made to quantify these amounts.

Note 6: Oversight and governance expenses

2015/2016 £ millions		2016/2017 £ millions
-0.010	Committee services costs charged by Somerset CC	-0.010
-0.269	Investments administration costs charged by Somerset CC	-0.267
-0.279		**-0.277**
-0.123	Actuary's fees	-0.143
0.059	Recharge of Actuary's fees to employers	0.045
-0.064		**-0.098**
-0.024	External audit fees	-0.024
0.000	Fee rebate	0.000
-0.024		**-0.024**
0.000	Internal audit costs charged by South West Audit Partnership	0.000
-0.065	Professional services and subscriptions	-0.069
-0.134	IT systems	-0.145
-0.023	Performance measurement fees	0.000
-0.015	External legal advice	0.000
-0.023	Voting advice fees	-0.023
-0.013	Pooling costs	-0.077
-0.010	Other expenses	-0.027
-0.650		**-0.740**

Note 7: Investment income

2015/2016 £ millions		2016/2017 £ millions
10.209	Fixed interest	9.993
0.576	Index linked	0.510
14.245	UK equities	14.940
12.699	Foreign equities	15.237
7.186	Property unit trusts	11.415
0.171	Cash invested internally	0.347
0.000	Private equity	0.000
0.000	Commission recapture	0.000
0.464	Stock lending	0.599
45.550		**53.041**

Note 8: Investment Assets & Liabilities

31 March 2016 £ millions	£ millions	%	%		31 March 2017 £ millions	£ millions	%	%
				UK equities				
382.638		24.0		Quoted	482.143		24.5	
7.934		0.5		Standard Life smaller companies fund	9.146		0.5	
	390.572		**24.5**			**491.289**		**25.0**
				Overseas equities				
318.694		20.0		North America	403.661		20.5	
164.866		10.4		Europe	198.076		10.1	
34.056		2.1		Japan	44.267		2.2	
63.182		4.0		Pacific (not including Japan)	87.823		4.5	
1.096		0.1		Middle East	1.037		0.0	
3.343		0.2		Emerging market	4.491		0.2	
45.672		2.9		Nomura Japan fund	60.583		3.1	
60.977		3.8		Pioneer emerging markets fund	81.896		4.2	
	691.886		**43.5**			**881.834**		**44.8**
				Bonds				
42.801		2.7		UK fixed-interest - public sector	43.624		2.2	
70.170		4.4		- corporate sector investment grade	79.797		4.1	
9.366		0.6		- corporate sector high yield	9.385		0.5	
0.000		0.0		Overseas - public sector	0.000		0.0	
62.806		4.0		- corporate sector investment grade	73.077		3.7	
28.915		1.8		- corporate sector high yield	28.160		1.4	
63.979		4.0		UK index-linked - public sector	70.202		3.6	
1.298		0.1		Overseas index-linked - public sector	1.733		0.1	
	279.335		**17.6**			**305.978**		**15.6**
				Property				
178.915		11.2		UK property funds	175.991		8.9	
3.093		0.2		Overseas property funds	2.012		0.1	
	182.008		**11.4**			**178.003**		**9.0**
				Private equity				
14.252		0.9		Neuberger Berman Crossroads 2010 fund	14.040		0.7	
5.912		0.4		Neuberger Berman Crossroads XX fund	9.672		0.5	
1.461		0.1		Neuberger Berman Crossroads XXI fund	4.974		0.3	
1.920		0.1		South West regional venture fund	1.840		0.1	
	23.545		**1.5**			**30.526**		**1.6**
				Derivatives				
0.045		0.0		Forward foreign-exchange contracts	0.147		0.0	
0.000		0.0		Government bond futures	0.000		0.0	
	0.045		**0.0**			**0.147**		**0.0**
				Cash and others				
25.707		1.6		Cash invested internally	78.837		4.0	
	25.707		**1.6**			**78.837**		**4.0**
	1,593.098		**100.1**	**Investment assets**		**1,966.614**		**100.0**

Table continued on next page

Note 8: Investment Assets & Liabilities (continued)

31 March 2016 £ millions	£ millions	%	%		31 March 2017 £ millions	£ millions	%	%
				Derivatives				
-0.875		-0.1		Forward foreign-exchange contracts	-0.142		0.0	
0.000		0.0		Government bond futures	0.000		0.0	
	-0.875		**-0.1**			**-0.142**		**0.0**
	-0.875		**-0.1**	**Investment liabilities**		**-0.142**		**0.0**
	1,592.223		**100.0**	**Net investment assets**		**1,966.472**		**100.0**
				Made up of				
	1,299.570			Historical cost		1,410.910		
	292.653			Unrealised profit or loss		555.562		
	1,592.223					**1,966.472**		

Note 9: Analysis of Pooled Investments

31 March 2016 £ millions		31 March 2017 £ millions
	Unit trusts	
111.229	UK property funds	118.325
	Unitised insurance policies	
7.934	Standard Life smaller companies fund	9.146
17.215	UK property funds	8.849
25.149		**17.995**
	Limited liability partnerships	
4.915	UK property funds	5.779
1.368	Overseas property funds	1.475
14.252	Neuberger Berman Crossroads 2010 fund	14.040
5.912	Neuberger Berman Crossroads XX fund	9.672
1.461	Neuberger Berman Crossroads XXI fund	4.974
1.920	South West regional venture fund	1.840
29.828		**37.780**
	Other managed funds	
45.672	Nomura Japan fund	60.583
60.977	Pioneer emerging markets fund	81.896
45.556	UK property funds	43.038
1.725	Overseas property funds	0.537
153.930		**186.054**
320.136	**Total**	**360.154**

Note 10: 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
2015/2016	Total	1,590.850	-22.396	1,274.363	-1,211.246	26.168	-65.516	1,592.223
Somerset County Council	Global equity	383.102	0.000	46.675	-45.405	5.748	103.641	493.761
Standard Life	UK equity	363.467	0.000	134.929	-112.089	13.678	59.119	459.104
Somerset County Council	US equity	85.559	0.000	16.116	-25.984	6.976	18.257	100.924
Jupiter	European equity	101.443	0.000	28.327	-21.362	2.109	6.227	116.744
Nomura	Japanese equity	45.672	0.000	0.000	0.000	0.000	14.911	60.583
Maple-Brown Abbott	Far East equity	42.238	0.000	7.624	-6.846	1.706	15.389	60.111
Pioneer	Emerging Market equity	60.977	0.000	0.000	0.000	0.000	20.919	81.896
Standard Life	Bonds	279.335	0.000	85.985	-87.985	5.174	23.469	305.978
Standard Life	Derivatives	-0.715	0.000	660.936	-660.708	-0.227	0.653	-0.061
Aviva	Property	182.008	0.000	22.273	-21.648	-0.838	-3.792	178.003
Aviva	Currency	-0.115	0.000	20.302	-20.303	0.000	0.182	0.066
Neuberger Berman	Global private equity	21.625	0.000	5.247	-2.810	0.531	4.093	28.686
TVP	UK venture capital	1.920	0.000	0.000	-0.080	0.000	0.000	1.840
Somerset County Council	Cash	25.707	32.506	0.000	0.000	20.783	-0.159	78.837
2016/2017	**Total**	**1,592.223**	**32.506**	**1,028.414**	**-1,005.220**	**55.640**	**262.909**	**1,966.472**

Note 11: Actuarial present value of promised retirement benefits

The present value of promised retirement benefits is an estimate of the value of the lump sums and pensions that the fund will pay in the future. The estimate has been calculated by the fund's actuary and has been prepared in accordance with International Accounting Standard (IAS) 26. In calculating the disclosed numbers the actuary has adopted methods and assumptions that are consistent with IAS19.

To assess the value of the Fund's liabilities at 31 March 2017, the actuary has rolled forward the value of the Fund's liabilities calculated for the funding valuation as at 31 March 2016

In accordance with IAS 19 the assumptions used to make the calculations are set with reference to market conditions at the net asset statement date. The assumptions used are as follows:

31 March 2016		31 March 2017
	Financial assumptions	
3.3%	RPI increases	3.6%
2.4%	CPI increases	2.7%
4.2%	Salary increases	4.2%
2.4%	Pension increases	2.7%
3.7%	Discount Rate	2.8%
	Life expectancy (from age 65)	
23.8	Retiring today - Males	23.9
26.2	- Females	25.0
26.1	Retiring in 20 years - Males	26.1
28.5	- Females	27.4

The RPI increase assumption is set based on the difference between conventional gilt yields and index-linked gilt yields at the accounting date using data published by the Bank of England, specifically the 21 year point on the BoE spot inflation curve. This is consistent with the approach used at the last accounting date.

CPI is assumed to be 0.9% below RPI. This is a reasonable estimate for the future differences in the indices, based on the different calculation methods.

Salaries are assumed to increase at 1.5% p.a. above CPI in addition to a promotional scale. However, the actuary has allowed for a short-term overlay from 31 March 2016 to 31 March 2020 for salaries to rise in line with CPI. This has been updated since the previous accounting date. At the previous accounting date, salaries were assumed to increase at 1.8% p.a. above CPI in addition to a promotional scale.

The discount rate is the annualised yield at the 21 year point on the Merrill Lynch AA rated corporate bond curve which has been chosen to meet the requirements of IAS19 and with consideration of the duration of the Fund's liabilities. This is consistent with the approach used at the last accounting date.

The table below shows a breakdown of the change in the present value of promised retirement benefits that occurred during the year.

2015/2016 £ millions		2016/2017 £ millions
101.936	Current service cost	90.939
101.986	Interest cost	107.406
-241.303	Change in financial assumptions	739.679
0.000	Change in demographic assumptions	-54.798
0.000	Experience loss/(gain) on defined benefit obligations	-21.677
-1.560	Liabilities assumed/(extinguished) on settlements	0.000
-80.723	Estimated benefits paid net of transfers in	-81.419
1.940	Past service costs, inculding curtailments	1.594
20.651	Contributions by scheme members	20.821
-97.073		**802.545**

Note 12: Other investment balances

31 March 2016 £ millions		31 March 2017 £ millions
	Assets	
4.577	- Accrued income	4.363
0.000	- Accrued Recoverable tax	0.000
2.044	- Payments due on investments sold	2.750
6.621		**7.113**
	Liabilities	
-4.849	- Payments not made on purchases and losses due on sales	-7.065
1.772		**0.048**

Note 13: Management structure

31 March 2016 £ millions	%	Manager	Asset class	31 March 2017 £ millions	%
383.102	24	Somerset County Council	Passive global equity	493.761	25
363.467	23	Standard Life	UK equity	459.104	23
85.559	5	Somerset County Council	Passive US equity	100.924	5
101.443	6	Jupiter	European equity	116.744	6
45.672	3	Nomura	Japanese equity	60.583	3
42.238	3	Maple-Brown Abbott	Far East equity	60.111	3
60.977	4	Pioneer	Emerging market equity	81.896	4
278.620	18	Standard Life	Bonds	305.917	16
181.893	11	Aviva	Property	178.069	9
21.625	1	Neuberger Berman	Global private equity	28.686	2
1.920	0	Technology Venture Partners	UK venture capital	1.840	0
25.707	2	Somerset County Council	Cash	78.837	4
1,592.223	**100**	**Net investment assets**		**1,966.472**	**100**

Note 14: Major holdings

31 March 2016 Rank	£ millions	Stock	Description	31 March 2017 Rank	£ millions
1	60.977	Pioneer Emerging Market Equity Fund	Pooled fund of emerging market equities	1	81.896
2	45.672	Nomura Japan Fund	Pooled fund of Japanese equities	2	60.583
3	19.222	HSBC	UK bank	3	26.222
8	16.000	Glencore	UK mining company	4	21.160
25	9.420	Barclays	UK bank	5	20.918
9	14.594	Royal Dutch Shell	UK oil company	6	19.678
12	13.277	BP	UK oil company	7	19.139
4	18.524	Schroders UK PUT	UK property unit trust	8	19.022
5	17.891	CBRE UK Property Fund	UK property unit trust	9	18.207
7	16.067	IPIF	UK property unit trust	10	17.146
10	14.423	Vodafone	UK mobile phone company	11	16.668
48	6.483	Blackrock UK PUT	UK property unit trust	12	15.755
20	10.045	Prudential	UK life insurance company	13	15.112
21	10.044	Apple	US consumer electronics company	14	14.219
11	14.252	Neuberger Berman Crossroads 2010 fund	Private equity fund	15	14.040
19	10.049	Henderson UK Property Trust	UK property unit trust	16	14.022
45	6.892	Rio Tinto	UK mining company	17	13.461
22	9.911	Glaxosmithkline	UK pharmaceutical company	18	12.777
24	9.513	RELX	UK publishing company	19	12.406
32	7.838	British American Tabacco	UK tobacco company	20	12.351

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 15: 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 2016 £ millions				31 March 2017 £ millions		
Asset	Liability	Net value		Asset	Liability	Net value
			Forward foreign-exchange contracts			
0.045	-0.760	-0.715	Standard Life fixed Interest	0.080	-0.141	-0.061
0.000	-0.115	-0.115	Aviva	0.066	0.000	0.066
0.045	**-0.875**	**-0.830**		**0.146**	**-0.141**	**0.005**
			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	Australian 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**
0.045	**-0.875**	**-0.830**		**0.146**	**-0.141**	**0.005**

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 2 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 2016 £ millions Asset exposure value	Liability exposure value	Net value		31 March 2017 £ millions Asset exposure value	Liability exposure value	Net value
			Forward foreign-exchange contracts			
43.833	-44.548	-0.715	Standard Life fixed Interest	45.353	-45.414	-0.061
2.947	-3.062	-0.115	Aviva	2.320	-2.254	0.066
46.780	**-47.610**	**-0.830**		**47.673**	**-47.668**	**0.005**
			Government bond futures			
1.818	-1.818	0.000	UK gilt future	1.013	-1.013	0.000
3.396	-3.396	0.000	European bond future	0.566	-0.566	0.000
3.496	-3.496	0.000	Australian bond future	3.253	-3.253	0.000
0.000	0.000	0.000	Canadian bond future	0.000	0.000	0.000
4.462	-4.462	0.000	US treasury future	3.854	-3.854	0.000
13.172	**-13.172**	**0.000**		**8.686**	**-8.686**	**0.000**
59.952	**-60.782**	**-0.830**		**56.359**	**-56.354**	**0.005**

Note 16: Stock Lending

31 March 2016 £ millions		31 March 2017 £ millions
129.152	Value of stock on loan	105.520
142.497	Value of collateral held against loaned stock	116.918

31 March 2016 %		31 March 2017 %
	Form of collateral provided	
5.5	UK Government debt	7.7
3.0	US Government debt	7.9
21.3	Euro area Governments debt	11.3
0.0	US$ denominated corporate debt	0.0
0.0	€ denominated corporate debt	0.0
19.8	UK equities	8.5
50.4	Overseas equities	64.6
0.0	Other	0.0
100.0		**100.0**

Note 17: Membership Statistics

As at 31 March	2011	2012	2013	2014	2015	2016	2017
Active scheme members	**20,492**	**19,505**	**19,446**	**21,057**	**22,020**	**22,649**	**21,550**
Pensioners							
Current (in payment)	11,664	12,301	12,636	12,460	13,871	14,779	15,421
Deferred (future liability)	14,923	14,509	15,823	17,006	17,280	20,452	22,268
Undecided leavers *		2,307	3,135	3,147	3,754	2,507	3,778
Total (active plus pensioners)	**47,079**	**48,622**	**51,040**	**53,670**	**56,925**	**60,387**	**63,017**
Active members for each current pensioner	1.76	1.59	1.54	1.69	1.59	1.53	1.40

* For 2011 undecided leavers are included in deferred pensioners.

Note 18: 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 2016 £ millions		31 March 2017 £ millions
	Value of additional voluntary contributions	
4.451	Prudential	4.549
0.306	Equitable Life	0.292
4.757		**4.841**

2015/2016 £ millions		31 March 2017 £ millions
	Additional voluntary contributions paid during the year	
0.502	Prudential	0.387
0.000	Equitable Life	0.000
0.502		**0.387**

Note 19: Related Parties

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

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

Pension Board members Paul Deal, James Gilbody and Patricia Rowe were active members of the standard scheme during the year.

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

Payments made to Somerset County Council by the fund for administration and related services are disclosed in notes 4, 5 and 6.

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

Note 20: Remuneration

No staff are directly employed by Somerset County Council Pension Fund. All officers who undertake work on behalf of the fund are employed by Somerset County Council and then costs, including pay where appropriate, are charged to the fund. The total cost of these charges is shown in notes 4, 5 and 6 of these accounts.

The total actual salary and benefits paid for the financial year ended 31 March 2017 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 2017 Post title	Salary (including fees and allowances) £	Compensation for loss of office £	Benefits in kind £	Total wages and benefits but not including pensions contributions 2016/17 £	Employer's pension contributions £	Total wages and benefits including pensions contributions 2016/17 £
Director of Finance and Performance	103,700.00	-	-	103,700.00	13,900.00	117,600.00
Strategic Manager - Finance Technical	65,100.00	-	-	65,100.00	8,800.00	73,900.00

For comparison purposes the equivalent disclosure for the financial year ended 31 March 2016 is shown in the table below.

Year to 31 March 2016 Post title	Salary (including fees and allowances) £	Compensation for loss of office £	Benefits in kind £	Total wages and benefits but not including pensions contributions 2015/16 £	Employer's pension contributions £	Total wages and benefits including pensions contributions 2015/16 £
Director of Finance and Performance	102,500.00	-	-	102,500.00	13,800.00	116,300.00
Strategic Manager - Finance Technical	64,400.00	-	-	64,400.00	8,700.00	73,100.00

Note 21: Investment Strategy Statement

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

Note 22: Contingent liabilities

There were no contingent liabilities as at 31 March 2017.

Note 23: Post balance sheet events

There were no post balance sheet events as at 27 July 2017.

Note 24: Nature and Extent of Risks Arising from Financial Instruments

As a result of the adoption of IFRS the fund is required to make disclosures of the risks arising from holding Financial Instruments. For the purpose of this disclosure, financial instruments means all of the fund's investment assets and investment liabilities as shown in note 8 of these accounts, the approximation of the fair value of the net of these assets and liabilities at 31 March 2017 being £1,966m.

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

The fund's assets are managed by a mixture of officers and external fund managers as described in note 12 of these accounts. A management agreement is put in place with each external fund manager which clearly states the type of investments they are allowed to make for the fund, asset allocation ranges and any further restrictions we believe are necessary.

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

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

Market Risk

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

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

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

The fund particularly manages the effect of market movements on exchange rates by hedging a portion of its foreign currency exposure using currency forwards. Details of this are given in note 14 of these accounts.

The sensitivity of the fund's investments to changes in market prices have been analysed using the volatility of returns experienced by asset classes. The volatility data used 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 2017 by the amounts shown below.

Asset class	Value of Assets £ millions	Volatility	Increase in Assets £ millions	Decrease in Assets £ millions
UK equities	491.289	17.90%	87.941	-87.941
Overseas equities	881.834	15.30%	134.921	-134.921
UK bonds	132.806	7.70%	10.226	-10.226
Overseas bonds	102.970	13.20%	13.592	-13.592
UK index-linked bonds	70.202	7.20%	5.055	-5.055
Property	178.003	6.20%	11.036	-11.036
Cash	78.837	0.00%	0.000	0.000
Others	30.531	7.50%	2.290	-2.290
Net investment assets	**1,966.472**		**265.060**	**-265.060**

Credit Risk

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

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

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

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

A source of credit risk is the cash balances held to meet operational requirements or by the managers at their discretion and cash deposits with various institutions. Internally held cash is managed on the fund's behalf by the Council's Treasury Management Team in line with the fund's Counterparty Policy which sets out the permitted counterparties and limits. The exposure within the cash management part of the portfolio to a single entity is limited to £8m and all counterparties must be rated at least “BBB+” or higher by the three major rating agencies. In this context the fund’s cash balances (including the cash held at bank or net of bank overdraft) of £78.8m is subject to credit risk.

Through its securities lending activities, the fund is exposed to the counterparty risk of the collateral provided by borrowers against the securities lent. This risk is managed by restricting the collateral permitted to high grade sovereign debt and baskets of liquid equities. Details of the collateral held are provided within note 15 of these accounts.

Forward foreign exchange contracts are subject to credit risk in relation to the counterparties of the contracts, which are primarily banks. The maximum credit exposure on foreign currency contracts is the full amount of the contractual settlement should the counterparty fail to meet it obligations to the fund when it falls due. The fair value and full exposure levels of the forward foreign exchange contracts held are provided in note 14 of these accounts.

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

Liquidity risk

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

A substantial portion of the fund's investments consist of cash and readily realisable securities, in particular equities and fixed income investments that are listed on exchanges. This gives the fund access to in excess of £1.5bn of assets which could be realistically liquidated into cash in less than a week.

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

The forward foreign exchange contracts held by the fund do give rise to a liquidity risk as they must be settled at a prescribed date agreed at the time of placing the contract. The exact size of this liability varies in line with foreign exchange prices on an on-going basis. The furthest date at which some of these contracts expire is never more than 6 months and the cash flows involved are regularly monitored to ensure we can meet these liabilities as they fall due. The fair value and full exposure levels of the forward foreign exchange contracts held are provided in note 14 of these accounts.

The bond futures have daily margin calls and no cash liability beyond these. The size of the daily margin calls are typically around £20,000 and on occasion as large as £75,000 and therefore do not pose a significant liquidity risk to the fund.

Note 25: 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 2017 into the 3 levels of the fair value hierarchy.

Asset Class	Level 1 £ millions	Level 2 £ millions	Level 3 £ millions	Total £ millions
UK equities	491.289			491.289
Overseas equities	881.834			881.834
Bonds	305.978			305.978
Property funds		178.003		178.003
Private Equity funds			30.526	30.526
Forward foreign-exchange contracts	0.005			0.005
Government bond futures	0.000			0.000
Cash	78.837			78.837
Net investment assets	**1,757.943**	**178.003**	**30.526**	**1,966.472**

For comparison purposes the equivalent disclosure for the financial year ended 31 March 2016 is shown in the table below.

Asset Class	Level 1 £ millions	Level 2 £ millions	Level 3 £ millions	Total £ millions
UK equities	390.572			390.572
Overseas equities	691.886			691.886
Bonds	279.335			279.335
Property funds		182.008		182.008
Private Equity funds			23.545	23.545
Forward foreign-exchange contracts	-0.830			-0.830
Government bond futures	0.000			0.000
Cash	25.707			25.707
Net investment assets	**1,386.670**	**182.008**	**23.545**	**1,592.223**

There have been no transfers of assets between levels within the fair value hierarchy during the financial year ended 31 March 2017.

The following table shows a reconciliation of the movement in level 3 investments during the financial year ended 31 March 2017.

Asset class	Fair Value as at 31 March 2016 £ millions	Transfers into Level 3 £ millions	Transfers out of Level 3 £ millions	Purchases £ millions	Sales proceeds £ millions	Realised profit or loss £ millions	Unrealised profit or loss £ millions	Fair Value as at 31 March 2017 £ millions
Global private equity	21.625	0.000	0.000	5.247	-2.810	0.531	4.093	28.686
UK venture capital	1.920	0.000	0.000	0.000	-0.080	0.000	0.000	1.840
Total	**23.545**	**0.000**	**0.000**	**5.247**	**-2.890**	**0.531**	**4.093**	**30.526**

Note 26: Disclosures

Under IFRS the fund must disclose what consideration it has given to accounting standards that have not been adopted. For the 2016-17 accounts there are no current standards that the authority has yet to adopt.

Kevin Nacey, Director of Finance and Performance
July 2017

Glossary of terms

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

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

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

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

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

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

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

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

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

Capital financing charges
The charge to the Authority's capital financing reserve for repaying loans. It does not include:

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

Capital receipts
The proceeds from selling assets such as buildings.

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

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

Carry-forwards
Revenue budgets the Authority has not spent, which services can use in future years.

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

Central Government Grants
There are different types of grant.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Provisions
Money the Authority keeps to pay for known future costs.

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

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

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

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

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

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

SAP
The Authority's computerised accounting and procurement system.

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

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

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

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

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

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

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

More information

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

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

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These accounts are also available on the internet at www.somerset.gov.uk/accounts

These accounts are also available in Braille, in large print, on tape and on CD and we can translate them into different languages.

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