SOMERSET COUNTY COUNCIL

STATEMENT OF ACCOUNTS 2017/18

AUDITED & APPROVED ACCOUNTS

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WWW.SOMERSET.GOV.UK

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

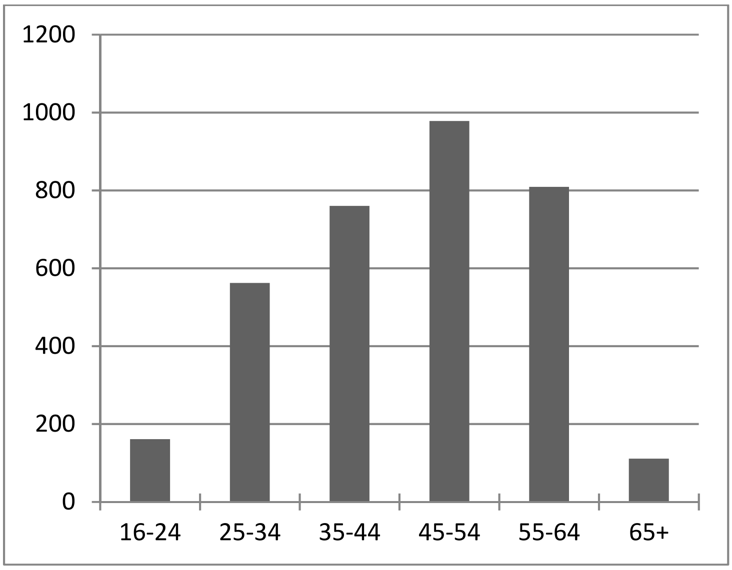
Somerset Context

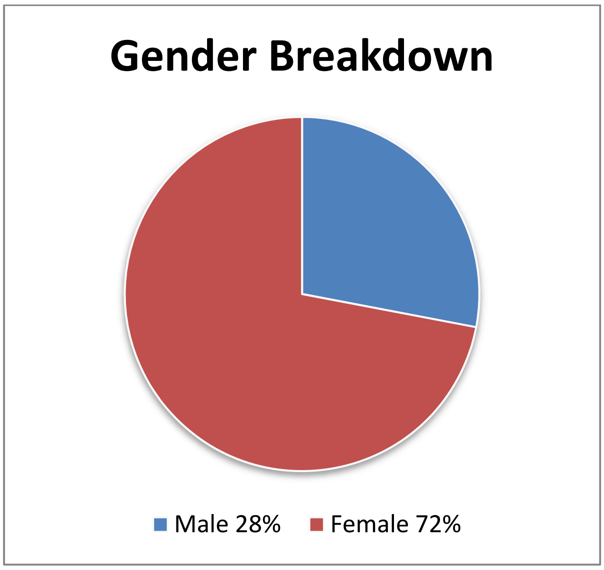
Somerset is a beautiful county with many assets including a strong and significant heritage and vast areas of countryside and moors. Somerset's population is classified as around 52% urban and 48% rural, making it one of the ten most rural counties in England. In particular, the district of West Somerset 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 3,381 people in full and part time contracts on 31st March 2018 which is a significant reduction on the previous year due to the transfer of employees to a new Learning Disabilities provider. Employees are a valued significant resource within the authority and employee's costs account for 33% of the total gross expenditure. The authority's workforce profile can be seen in the charts below.



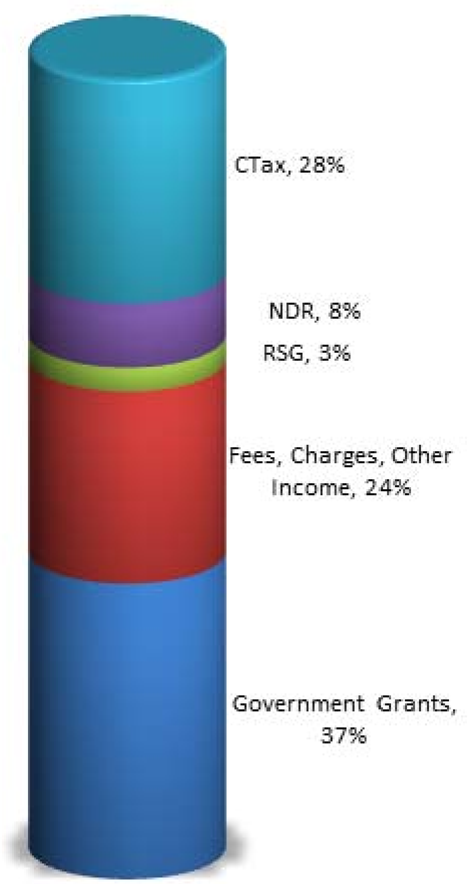


Financial Context

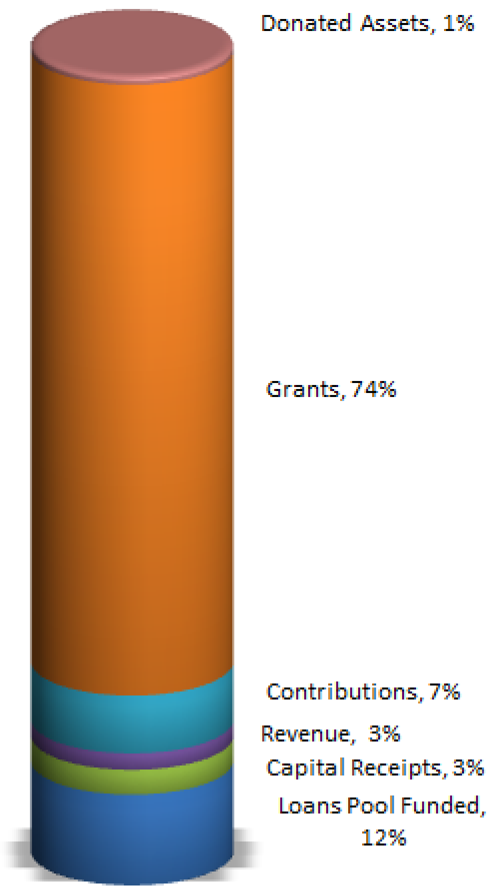
Nationally, 2017/18 was a relatively stable year for the Local Government sector with no significant changes in funding mechanisms or responsibilities. The main focus therefore remained on mitigating the continued austerity measures which have reduced the Authority's core Revenue Support Grant by nearly 38%. In November 2016 we agreed our Capital Investment Programme for 2017/18 of £107.599m and in February 2017, we agreed our revenue budget for 2017/18 at £311.8 million which resulted in a band-D council tax of £1,192.16.

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 28% of our revenue funding needs.

Revenue



Capital



Developments for the year

Childrens' Services

Ofsted re-inspected Somerset Services for children in need of help and protection in November 2017. The report was published in January 2018 and provided an overall outcome of 'Requires Improvement to be Good' in all service areas, other than Adoption which was judged to be 'Good'.

Ofsted, in their report said "Since the last inspection in 2015, when Somerset children's services were judged as inadequate overall, the local authority has made steady progress in improving the quality of services that children and young people receive. Senior leaders have worked effectively with an improvement partner, and they have created a culture of openness and willingness to learn that supports further improvement."

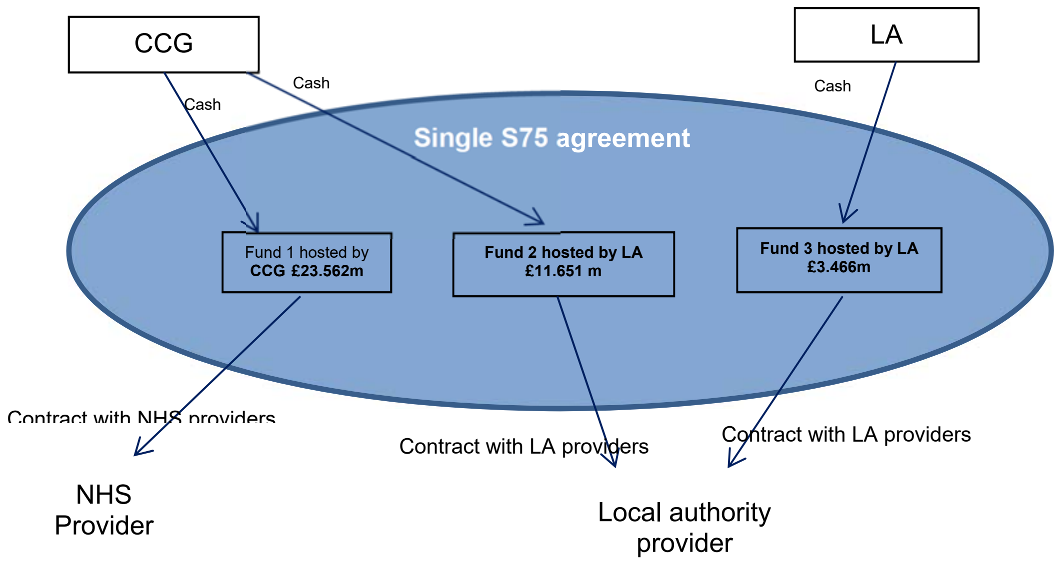
The Ofsted report can be found here:
http://democracy.somerset.gov.uk/documents/s6779/Ofsted%20For%20info%20doc.pdf

Work continues to address the areas for improvement and recommendations have been incorporated into Programme 6 of the Children and Young People's Plan for 2018/19 and progress is reported frequently to Scrutiny for Policies, Children and Families.

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 2017/18 through a signed agreement under Section 75 of the National Health Service Act 2006. Somerset County Council received additional funding in 2017/18 through the improved Better Care Fund, which has been pooled as part of the Section 75 agreement.

Under this Section 75 agreement there are three funds totalling £51.682m 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 85.

Heart of the South West Local Enterprise Partnership

The Heart of the South West Local Enterprise Partnership (HoTSW LEP) has been awarded Growth Deal funding from the Government's Local Growth Fund, a fund set up to fund projects that benefit local areas and economies. In 2016/17 it was awarded £56.7m, in 2017/18 £36.1m and in 2018/19 £10m. These monies are continuing to be spent as the projects approved by the LEP progress. 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

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 2017/18 and has used £4.001m of capital receipts to fund qualifying expenditure.

Use of reserves
Over the past few years, key services such as Children's Social Care, Adult Social Care and Learning Disabilities services have had to manage considerable increases in demand. As a result there has been considerable financial pressure forecast in these services. A decision was made again during the year to re-prioritise some earmarked reserves to offset these financial pressures as has also happened in the previous financial year. The authority's reserves have declined and this can be seen in the following primary statements and notes to the accounts.

Schools converting to Academy status
Somerset schools have continued to opt to transfer to Academy status. During the year five schools transferred. In addition one school opened as an academy during the year. Four schools have academy orders agreed and will transfer early in 2018/19. 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 Report in line with the priorities identified in the County Plan 2016-20. There has been continued use of the 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 (V) projects outlined in the revised County Plan.

The RAG (red, amber, green) rating and the direction of performance arrow identifies the performance of that segment overall. 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 has been ongoing between the Planning and Performance team and Senior Leadership Team to further develop the director level Scorecards using a more centralised format and ensuring that the information included is in line with the County Plan, Service Plans and therefore embeds a consistent quality across all areas.

Work areas have refreshed their Service Plans again this year, in the most part the corporate excel template has been used as last year; enabling better analysis. Some work areas have developed plans in different formats to better suit their business needs. Alongside this the development of a SCC Business Plan has commenced and Service Plan authors are being encouraged to carry out a quick review of the their service plans to ensure alignment.

This year the process for refreshing the Performance Management Framework (PMF) has commenced. This has included updating not only the information used in the PMF to ensure all links to policies and procedures are up to date, but also looking at the ways in which the information is presented and accessibility as we move towards more interactive ways of accessing information. Further guidance about escalation has also been included in the new Framework along with reference to the emerging Business Plan and County Vision. As part of this refresh a process has started towards developing and implementing a Data Strategy across the authority to include Data Sharing and Data Quality amongst other key areas.

A Value for Money strategy continues to be drafted with an emphasis on promoting a culture of value for money in the day to day activities of the Council and ensuring VfM is an active part of decision making, partnership working and resource management.

The table below summarises overall performance for Q4 of 2017/18 that is being reported to Cabinet on 11th June 2018 with a comparison to the previous year (2016/17)

Metric Segment	Number of objectives			Direction of Travel (DoT)		
	Green	Amber	Red	Up	Down	Stable
2017/18						
The People's Priorities	4	3	0	3	0	4
The Council	1	2	1	1	1	2
Vision Volunteers	1	0	0	0	0	1
Totals	6	5	1	4	1	7
As Percentage	50%	42%	8%	36%	8%	56%
2016/17						
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 2016/17	8	1	3	3	7	2
As Percentage 2016/17	67%	8%	25%	25%	58%	17%

Summary of Financial Performance

Revenue spending in 2017/18

In February 2017, the Authority agreed its budget for 2017/18 at £311.8 million. This resulted in a band-D council tax of £1,192.16 which included an increase in Council Tax of 2.99%, a special precept increase specifically for Adult Social Care of 3% and a precept to cover the responsibilities for the Somerset Rivers Authority of £12.84. 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 62.

Table 1: Comparison of actual spend against budget

Service	2017/18 budget £millions	2017/18 actual spend £millions	Difference £millions	Difference %
Adults & Health	78.2	73.2	-5.0	-6.4
Children & Families - Operations	53.3	60.6	7.3	13.7
Learning Disabilities	47.7	51.4	3.7	7.8
Adults & Health - Commissioning	7.8	7.8	0.0	-0.1
Children & Learning - Commissioning	21.3	23.8	2.5	11.7
Schools	19.6	19.6	0.0	0.0
Public Health	1.1	0.1	-1.0	-90.9
Economic & Community Infrastructure Services	62.8	61.2	-1.6	-2.5
Support Services & Trading Units	26.7	27.9	1.2	4.5
	318.5	**325.6**	**7.1**	**2.2**
Non-service items and in year funding deficit (costs such as bank charges that cannot be linked to a particular service)	-6.7	-12.9	-6.2	92.5
	311.8	**312.7**	**0.9**	**0.3**
Funded by:				
Revenue Support Grant	-26.3	-26.3	0	
Business Rates	-64	-64.9	-0.9	
Council Tax	-221.5	-221.5	0	
	-311.8	**-312.7**	**-0.9**	

Capital spending in 2017/18

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 2017/18 our capital spending was £103.606m (£144.272m in 2016/17). The following table gives more detail on how we spent this money.

Table 2: Major Capital Schemes

Scheme		2017/18 £millions	£millions
Economic Community and Infrastructure	Local Enterprise Partnership	22.483	
	Road Structures	22.353	
	Superfast Broadband	2.438	
	Somerset Rivers Authority	1.626	
	Street Lighting	0.456	
	Other Projects	12.958	
			62.313
Children and Learning	Schools' Basic Need	19.290	
	Schools' Capital Repairs	3.684	
	General Education Provision	2.629	
	Other School Projects	3.509	
	Other Children's Services	0.070	
	Early Years	2.548	
	Schools' Building Improvements	0.096	
			31.826
Support	ICT Investment & Development	7.710	
	CASA/OPE	0.230	
	Other Projects	0.829	
			8.769
Learning Disabilities	Minor Works	0.197	
	LD Property Reconfiguration	0.036	
	Other Projects	0.233	
			0.466
Adults and Health	Public Health Recovery Hub	0.232	
			0.232
	Total Capital Spending		103.606

Borrowing facilities

Under the Prudential Code, the Authority has set an authorised limit against which our external borrowing is monitored and managed. For 2017/18, the total approval was £443 million (next year's approval is £442 million). On 31 March 2018, the amount we owed was £344.51million (£346.1 million in 2016/17).

On 31 March 2017 £millions	Borrowing	On 31 March 2018 £millions
160.3	Public Works Loan Board (PWLB)	160.3
176.2	Other long-term loans	175.8
9.6	Other organisations investing in the Comfund (note 33)	8.4
346.1		344.5

In line with accounting practice, the Authority must show the 'fair value' of its loans. The fair value of the PWLB loan is £224.663 million at 31 March 2018 (£233.950 million at 31 March 2017). The fair value of the other long-term loans is £278.148 million at 31 March 2018 (£290.888 million at 31 March 2017).

Significant Assets & Liabilities
The Authority has a strong Balance Sheet as at 31 March 2018 (page 65) with the most significant Assets and Liabilities shown in the table below:

On 31 March 2017 £millions	Balance Sheet Extract	On 31 March 2018 £millions
903.2	Property, Plant & Equipment	909.6
180.6	Short Term Investments	174.3
28.5	Cash & Cash Equivalents	24.0
-336.0	Long term Borrowing	-335.7
-43.7	Long Term Liability - PFI/Lease	-42.9
-835.8	Long Term Liability - Pensions	-802.5
61.1	Usable Reserves	55.1
-249.8	Unusable Reserves	-223.7

Usable Reserves
On 31 March 2018 the Authority had the following reserves available:

On 31 March 2017 £millions	Reserves	On 31 March 2018 £millions
3.4	Capital reserves	3.7
8.0	Capital Grants/Contributions Unapplied Reserves	8.5
4.0	Revenue reserves set aside for capital	3.6
15.3	Other revenue reserves which we have set aside	6.3
21.3	Schools' carry-forward fund	19.1
-11.2	Services' carry-forward fund	-7.0
20.2	General reserves (see the note below)	20.9
61.0		55.1

General reserves represent just 6.7% of the 2017/18 budget. This shows that the Authority needs to continue to operate within very strict financial limits.

Future Developments & Priorities
Looking ahead to 2018/19 and the future

Economic outlook

UK economic activity remained strong over the past year. The Monetary Policy Committee declared that the global economy is growing at its fastest pace in seven years. UK net trade is benefiting from robust global demand and the past depreciation of sterling. Along with high rates of profitability, the low cost of capital and limited spare capacity, strong global activity is supporting business investment, although it remains restrained by Brexit-related uncertainties. GDP growth is expected to average around 1.75% over the short term, a slightly faster pace than was projected previously thought.

The Bank of England's February Inflation Report indicates that inflation is expected to remain around 3% in the short term, reflecting recent higher oil prices. More generally, sustained above-target inflation remains almost entirely due to the effects of higher import prices following sterling's past depreciation due mainly to the Brexit-related market uncertainties.

Austerity – The impact on Local Government Funding

Historic			Future	
Year	**£m**		**Year**	**£m**
2010/11	**£3m in-year**		**2018/19**	**£10m**
2011/12	**£22m**		**2019/20**	**£10m**
2012/13	**£2m**		**2020/21**	**£6m**
2013/14	**£19m**			
2014/15	**£12m**			
2015/16	**£19m**			
2016/17	**£16m**			
2017/18	**£16m**			
TOTAL	**£109m**		**TOTAL**	**£26m**

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 2017/18, SCC's core funding received from government reduced by £109m 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, however uncertainty remains on the distribution of Business Rates.

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 Business Rates Pool along with Sedgemoor and Mendip for 2017/18 and has joined a larger Business Rates Pool for 2018/19 along with Sedgemoor, Mendip, South Somerset, Taunton Deane and West Somerset Councils following the success of the previous pool arrangements. This should provide greater resilience to any economic variations across the county 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 £8.6m in 2019/20 and totals £15.5m 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 every year with specific permission for 2018/19 to raise Council Tax by 3%. The authority also has the 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=546&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. The demands upon the Council's services have not reduced in the early part of the new financial year and are not likely to over the course of the year. Children's services nationally are facing significant financial pressures and the transformational work under way to improve demand management and simultaneously improve outcomes for vulnerable children in Somerset is well under way but will not reduce cost sufficiently quickly to ensure budgets are balanced by year end. The Chief Executive has therefore confirmed that the primary focus of the authority is to find mitigating actions to deliver underspends across the whole Council as well as in those core care services to off-set the overspend while transformation takes place. In February 2018 the MTFP budget reports highlighted that a reset of Children's services budgets was required and the LGA is helping to work on this with us, realising this is a national problem. The Senior Leadership Team is confident that its intense scrutiny of expenditure will deliver the necessary reductions but this will require some additional savings to be approved.

Reserves

In addressing services financial commitments and the financial impact of the pressures felt in Children's Social Care, Adults Social Care and Learning Disability services Earmarked Reserves and General Reserves have been used to address in year overspends. This has resulted in reduced reserve levels for the authority which reduces the capacity to deal with unforeseen financial issues. As a result the authority has allocated funding in future years to inject additional funds into reserves to ensure it remains financially resilient.

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.

Working together for the communities of Somerset

On Wednesday 2 May 2018, the leader of Somerset County Council announced that it intended to start a conversation with the district councils and other partners to explore whether a unitary model of local government could be a better way to deliver public services in Somerset.

All councils in Somerset recognise the need to explore ways in which public services can be delivered to achieve best value for money for the residents and businesses of Somerset in the most cost-efficient and effective way.

The Leaders of all five district councils and Somerset County Council have pledged to work together on a joint review of local governance in Somerset. The aim of the review will be to determine the best way of delivering local public services and meeting community outcomes in Somerset in the future.

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 2017/18 and shows our financial position as at 31 March 2018. 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.

Inspection and audit

The Authority made these accounts available for public inspection (from 1 June to 12 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 will be approved by our Audit Committee on 26 July 2018.

Interim Director of Finance
(Chief Financial Officer)
26th July 2018

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 2018 and its income and spending for the year ending on that date.

Interim Director of Finance
(Chief Financial Officer)
Somerset County Council
26th July 2018

Independent Auditor's Report

**to the Members of
Somerset County Council**

The audit report will appear here.

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Annual Governance Statement (2017/18)

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 2017/2018.* 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 – Financial Governance, ECI and Corporate Services 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)

This framework sets out the way in 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 chaired by the Director of Finance, Legal and Governance, and 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 seek to 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 additional assurance that the Statement of Accounts gives a true and fair view of the authority's financial position at the reporting date and its financial performance during the year.

Unless stated below, the governance framework has been in place at Somerset County Council for the whole of the year ended 31 March 2018 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.

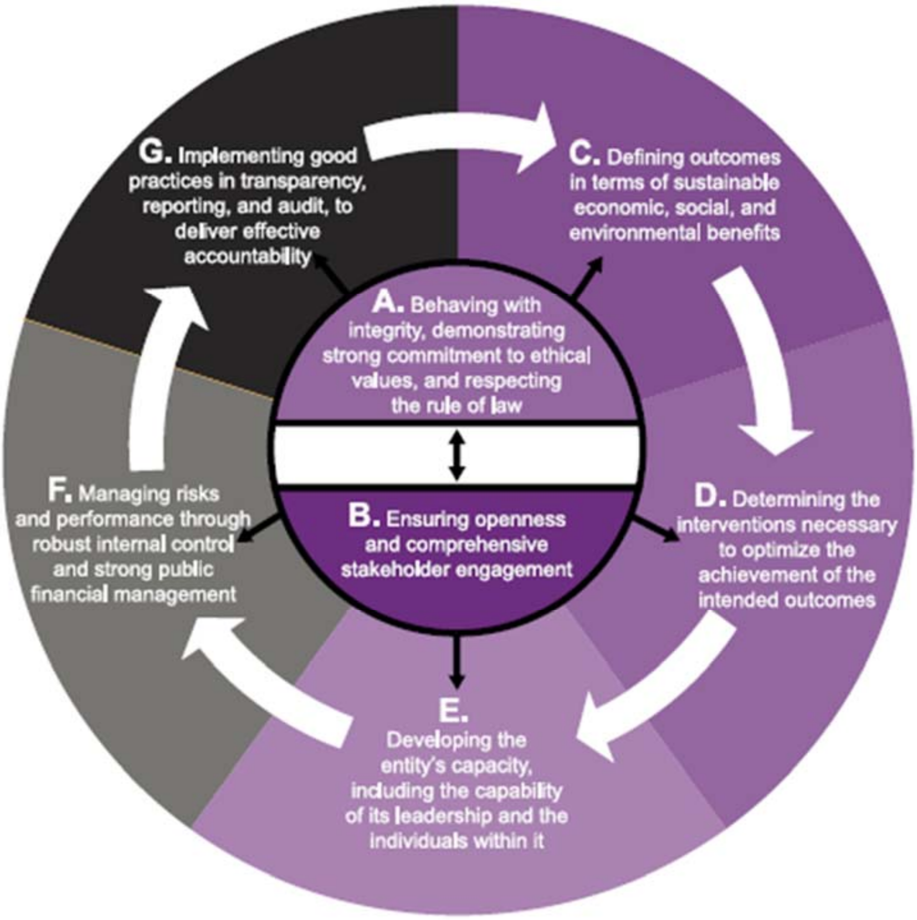
Review of our governance framework

Delivering Good Governance in Local Government: Framework (2016) was an update to the previous 2007 publication, and 2017/2018 is the second financial year for which this framework applies. Whilst there is some clear correlation with the principles set out in the 2007 publication, the new Framework did require the Governance Board to carry out a very full review based on the 7 new principles and numerous sub-principles and actions last year, 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.

Subsequent to the review for the 2016/2017 accounts, for 2017/2018 key officers have considered their responses to the principles outlined below, and either confirmed that these are still in place or have provided an updated position.

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 – Financial Governance, ECI and Corporate Services at mgerrish@somerset.gov.uk.

The principles within the required 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 in their respective roles. Whilst the Members Code of Conduct has been published in the Councils Constitution for many years to improve transparency, there is an intention to strengthen transparency and assurance 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", and post-election they have a full induction and training programme, including the Members Code of Conduct. Given that elections were held in May 2017, this is a relatively recent occurrence. It is not unknown for further tailored training sessions to be run for interested members on specific topics, such as finance, the Council's strategic priorities and commissioning services. The Council's Monitoring Officer oversees member induction and support services for elected members and specific objectives are set out in a Member

Development Strategy. The Council has a Member Development Panel which has cross-party membership and works with officers on improving support for elected members which includes training and other activities to support the Code of Conduct. 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.

Whilst the Council does not operate annual “member appraisals” as such in the same way that it does for its officers, it does offer Personal Development Plans. These are undertaken voluntarily and are particularly targeted at county councillors that are new to the council. These provide an opportunity for reflection and action. Part 2 of the Council’s Constitution includes details regarding a number of rules, codes and protocols that are required of those acting on behalf of the Council.

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 annual Staff Awards, where staff are asked to nominate colleagues who have demonstrated these cultural 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. These registers are included as part of the Internal Audit Plan for 2018/2019).

Demonstrating strong commitment to ethical values

SCC operates a Constitution and Standards Committee, created by the merger of the previously separate Constitution and Standards Committees in May 2017. Under the Constitution, this Committee “has responsibility for promoting high standards of conduct by Members, Co-opted Members and Officers and for the policies and processes which support this aim”. This Committee meets at least quarterly, and reports into Full Council at least annually and more often should the need arise. During 2017/2018, this Committee considered and approved (amongst other items) new rules to strengthen standards for councillors, and issues around Access to Information and the Constitutional Provisions.

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).

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 which is overseen and administered by the Council’s Monitoring Officer.

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

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 Constitution is reviewed quarterly by the Constitution and Standards Committee, and updated at least annually by Full Council to ensure that it remains fit for purpose and is legally compliant.

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 Democratic Services.
All contracts must be let in accordance with SCC's Contract Standing Orders, and with the guidance of specialist procurement and legal services 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. The Access to Information requirements were reviewed by the Constitution and Standards Committee during the financial year and updated at the Council meeting in May 2018.

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 well in advance, again in accordance with Access to information requirements. We have a dedicated intranet page that clearly directs officers and report writers to the detailed requirements to take decisions in accordance with the Constitution and Schemes of Delegation

We automatically provide a substantial amount of information on our and our partners' websites. We comply with the transparency requirements, and go through an 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 5 years and has spoken to over 20,000 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 2017/18 we have contributed to 51 consultations and external surveys with over 7,200 individuals engaged. We have also assisted with three internal staff surveys to the entire workforce. Some of the key consultation/engagement work carried out over the last year includes:

- Family Support Service and Children’s Centre Consultation;
- Somerset Libraries Services Consultation 2018
- Sheltered Housing Support Consultation
- Drugs and Alcohol Partnership Service Consultation
- Children and young People with Hearing Impairments
- Pharmaceutical Needs Assessment
- Healthy Eating and Physical Activity Support in Somerset.

Supporting engagement and consultation for the Health and Social Care Strategy will be forthcoming as well as being heavily involved in communications/engagement/consultation work required to support the local government reorganisation discussions in Somerset.

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. There is also a Partnership Protocol, which summarises the position of Somerset County Council when working in partnership. It also sets out what is expected of Officers and Elected Members when they are involved in a partnership.

We have led a consortium of 19 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. During 2017/2018, this has progressed into becoming the Heart of the South West Joint Committee, established under Sections 101 to 103 of the Local Government Act 1972. The key purpose of the Joint Committee is to be the vehicle through which the HotSW partners will ensure that the desired increase in productivity across the area is achieved. This is a significant governance opportunity for the future.

The partnership working with our health partners remains of critical 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. The Council is also the lead authority for the Somerset Health and Wellbeing Board which has its own Constitution.

During 2017/2018, the County Council, along with our key partners on the Health and Wellbeing Board, adopted the Somerset Prevention Charter, recognising the that getting prevention right is essential to the future sustainability of public services. The Prevention Charter provides a common understanding of prevention across many organisations. This work links significantly with both the County Plan and the Somerset Health and Wellbeing Strategy where the focus is on supporting people to live healthier lives.

We undertake an annual statutory Joint Strategic Needs Assessment (JNSA) which informs the Health and Wellbeing Strategy. Whilst focusing on older people, the implications affect all ages across all communities

In addition, during 2017/2018 Somerset considered a Joint Strategic Commissioning Function bringing together the health and social care commissioning responsibilities of Somerset Clinical Commissioning Group, Somerset County Council and NHS England. This approach requires much greater use of pooled budget arrangements through Section 75 powers.

There is a quarterly Voluntary, Community and Social Enterprise (VCSE) Strategic Forum (complete with its own website) 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. This includes an Annual Leaders Conference. In early 2017, along with key partners, we commissioned the first Somerset VCSE State of the Sector Report.

The Somerset Armed Forces Covenant brings together charities, local authorities, other public sector organisations, businesses, communities, individuals and the military in a pledge of support between local residents and the armed forces community in Somerset.

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.

The Corporate Peer Challenge was extremely positive in the County Council's engagement with its partners, such as the HotSW LEP, and commented that this provided a "more effective foundation on which to improve outcomes" and that the County Council was "our partner of choice" from several external stakeholders.

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

Defining outcomes

For 2017/2018, SCC had very clearly defined outcomes that it has set out publicly 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 children's 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.

A new County Vision and Business Plan will go to Cabinet in June 2018, which will replace the existing Vision that was in place during 2017/2018.

The Corporate Peer Challenge "found a clear causal relationship between the council's priorities and the needs of the communities it serves".

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 transformational initiatives that we are undertaking to improve our services. We regularly report on our progress through the Performance Wheel reporting mechanism. Risk management work is reported quarterly, so that members are aware of the risks and mitigations to achieving our aims.

When we take decisions, such as the Medium Term Financial Plan (MTFP) process, we ensure that we not only consult, but also carry out an equalities impact assessment, including a strategic MTFP assessment.

Sustainable economic, social and environmental benefits

The capital programme regularly includes a number of investments that provide these benefits, such as a well-managed highways network, provision for the building of new schools, a substantial contribution to rural superfast broadband connectivity in the South West and a Business Growth Fund allocation. We have been successful in attracting a substantial amount of Growth Deal funding through our Local Enterprise Partnership (LEP) for the benefit of Somerset, and numerous grants for specific highways schemes. Key Decisions taken in 2017/2018 by Cabinet have included the Yeovil Western Corridor and the Somerset Energy Innovation Centre (Phases 2 and 3).

The Somerset Waste Board took the formal decision on Recycle More during 2017/2018, with an implementation date commencing in April 2020. This will result in additional material being recycled at kerbside, improving our recycling rate by including plastics and other materials in the recycling stream. The Recycling Centres will also be taking more separated recyclable materials. Together with the Energy from Waste (EfW) facility that will also be operational in April 2020, the County Council will have moved entirely away from landfilling of our residual waste. The recent motions against Single Use Plastic has also been supported by Somerset Waste Board, and a joined-up approach across the public sector in Somerset established.

We continue our CASA project, examining our property assets and seeking to bring our services (and others) into the same physical location. Investment has been approved to undertake essential works to A Block of County Hall, not only to bring the building up to the necessary specification, but with a view to making maximum use of the facility as we continue to look at property rationalisation. As part of this refreshed approach, all property assets will be reviewed to determine the business case for disposal, commercial use or strategic retention, on a case by case basis through existing decision-making structures.

When making any decisions, in accordance with our Constitution and guidance, there is an absolute requirement to consider all impacts and implications 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 and debates and decisions clearly minuted, or they are made by the appropriate officer or Cabinet Member through the decision-making processes. Consultations and feedback are an integral part of the County Council's decision-making processes. 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 as a 'critical friend' in shaping decisions and therefore their intended outcomes.

In accordance with our previous practice, the MTFP refresh and proposals were presented to all 3 Scrutiny Committees (January 2018) prior to Cabinet and Full Council consideration, including commentary on the Capital Investment Programme. Key reports, proposals and consultations are also made available for Scrutiny Committee to contribute to ideas and provide assurance, such as the Children and Young People's Plan, the Somerset Sustainability and Transformation Plan, and the property asset rationalisation approach and principles.

As above, the County Council also participates in a number of joint committees and boards such as the Health and Wellbeing Board and the Heart of the South West Joint Committee.

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. An officer Strategic Opportunities Board is now in place and reviews all proposed and pipeline contracts for new contracts.

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 overseen by the Commissioning Board, which has Senior Leadership Team and subject matter expert participation.

Our Medium Term Financial Plan (MTFP) continues to be 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. Key themes such as cross-cutting procurement and service redesign have been targeted as the way to drive future savings, as agreed by Cabinet.

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.

The continued financial strains on the County Council were recognised early in 2017/2018, reported to Cabinet and to Scrutiny, and measures put in place to reduce the overall impact by the end of year. The overspend position was therefore substantially reduced. Whilst additional funding for Adults was clearly an in-year factor, expenditure was challenged, and reduced through such measures as vacancy control and Expenditure Panels within services. By way of example, during 2017/18 senior public health managers undertook a prioritisation exercise in order to reset the priorities for the team following the reduction in the central public health grant. The tool has then informed the work programmes of teams, and individuals.

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, we have run a fully developed reporting mechanism for children's services and Quarterly Performance Review Management (QPRM) papers during 2017/2018 to aid us to improve.

Should the need arise, Business Continuity Plans have been developed and made ready, and reviewed at Audit Committee. 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

The continued themed approach to the MTFP has provided a level of continuity in the approach that has been employed. Whilst acknowledging the difficult position, it can be noted that the estimated gaps in future years are substantially reduced from figures previously required. At February 2018, these gaps were estimated at £8.615m in 2019/2020, £5.848m in 2020/2021 and £1.087m in 2021/2022.

It is still the intention that the MTFP does continue to look at future years and that our financial efforts are not restricted to year one. A number of economic projects are designed to increase opportunity and prosperity ahead of any firm decision on Business Rate Retention. Decisions are made to invest, where funds allow, in necessary infrastructure, such as new school buildings. The Capital Investment Programme included an indicative four-year programme.

The MTFP decisions taken in February 2018 ahead of the financial year included a Summary of MTFP 2018/2019 Impacts paper.

We have a Somerset County Council Social Value Policy Statement setting out our expectations for those who wish to do business with the County Council, and have had a SWAP audit reporting in November 2017 on social value, which gave Reasonable assurance. This accords with the Public Services (Social Value) Act 2012.

It is extremely difficult to balance funding with the service priorities we have to, and wish to, provide. It is acknowledged that the MTFP requires savings to be delivered in full and on time, a sentiment echoed by the Core Peer Challenge.

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 in early 2017, 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 grant funding. This value is set to increase over the next few years, and will be worth an additional £3.77m per annum by 2020/2021 if maintained, and our current DfT self-assessment suggests that it will.

On the property side, we continue to review our operational use of buildings, an approach that was formalised in a Key Decision on Asset Rationalisation. Key principles are:-

- Confirmation of SCC's overall policy of continued rationalisation;
- Confirmation that SCC's assets are seen as corporate assets;
- Endorsement of a more proactive approach to disposals, working with services, but driven centrally to meet current challenges;
- A clear preference for reducing our leasehold estate;
- Increased transparency and visibility of property costs and receipts; and
- A focus on the future of SCC's property estate as a flexible, low cost, sustainable and revenue generating portfolio.

Work has progressed on this basis. Internally, we have established an Asset Management Group to ensure alignment between corporate asset management plans, commissioning and service intentions.

The County Council has always been a member of various benchmarking groups across its services to better understand its costs and performance. In 2017/2018, additional benchmarking work was done with ORBIS, and specific enquiries were made in terms of Children's services (with Gloucestershire) and capital (with Devon).

We continue to work with key partners, as set out elsewhere in this Statement, 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 previously published a 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. Further work has been done throughout 2017/2018 on refreshing this Strategy, and once completed it will be introduced through roadshows and workshops. There are a number of key themes in the strategy and it sets out what we will do and what it will look and feel like in the future. Key themes include leadership, communities and partnerships, innovation and challenge.

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.

The Corporate Peer Challenge stated that "we saw many examples where the council was building capacity through its people. The council is proactive in terms of its approaches to staff engagement, empowerment and development."

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 the elections in May 2017, there was 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. Key member roles have a role description set out within the Council's Constitution which aids development programmes and expectations for the postholder. There is an annual member training programme and Personal Development Plans (PDPs) offered for members. 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 Corporate Peer Review noted "harmonious and respectful relationships between members and officers".

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 Cabinet, 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 previously 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. Each risk will have a named risk owner. 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, Legal and Governance, and membership includes the Monitoring officer, Deputy Section 151 Officer, 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 received a quarterly Council Performance Report during 2017/2018, which provided a high-level 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 ongoing progress towards the visions set out in the County Plan.

The established reporting format is the Performance Wheel, with 7 segments which reflect the 'People's Priorities'. The 'People's Priorities' are drawn from our County Plan, covering priorities for the whole of Somerset and are regularly discussed as part of our ongoing public engagement process. There are four 'Council' segments which seek to measure how well the council manages its relationships with partners, staff and the public and how it rates its internal management processes. 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. Key issues for members' consideration are highlighted.

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 High Priority Themes has a Senior Responsible Owner, who is usually a member of the Senior Leadership Team. The Core Council Programme also has its own officer Core Council Board to manage the delivery. The format sets out Achievements, Issues and Next Steps for each period under review.

Each Director now has 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.

SCC operated 3 separate Scrutiny Committees during 2017/2018, each with its own remit – Policies and Place; Adults and Health; and Children and Families. These are public meetings, and the terms of reference for Scrutiny are set out in our Constitution and reviewed at least annually. In line with other councils, our Scrutiny Committees have the right of “call in” on key decisions on matters that concern them and this is generally used on an exception basis.

Financial performance is also taken quarterly to Cabinet in budget monitoring and outturn reports co-ordinated by Corporate Finance officers, 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 then tracked. Only when a Follow Up audit confirms that the management actions have been satisfactorily completed will the Partial audit be closed on JCAD. In addition, the recipient of a Partial audit is required to attend a public Audit Committee meeting to explain to members how they are addressing the agreed actions arising out of the audit, in order to provide the necessary assurance.

SCC’s Audit Committee has a defined brief set out in the Constitution, and in addition to the usual role of “those charged with governance” such as approving the Statement of Accounts, has received a number of other reports during 2017/018, including reviewing the Anti-Fraud and Corruption work and endorsing the new Income Code of Practice. (Performance on collecting income due to the County Council has noticeably improved in recent months as the Code is rolled out). 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 (PSIAS), and is formally reviewed at the Audit Committee annually (latterly April 2018). Peer reviews are used to provide an independent assessment of SWAP’s processes. SWAP is now increasingly recognised for its work, particularly innovation, in awards processes from bodies such as CIPFA and the Municipal Journal.

Our working relationship with SWAP is contained with an Internal Audit Plan and a PSIAS-compliant 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. Internal audit 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. All fraud and corruptions allegations are investigated.There are also subsidiary policies on Bribery and Money Laundering. All policies, and our detailed 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. 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.

During 2017/2018, significant work was undertaken to ensure that Somerset County Council was in the best place to meet the requirements of the stringent EU-General Data Protection Regulations (GDPR) to be introduced in May 2018. The Information Governance Team at Somerset County Council asked SWAP to investigate and give assurance around the information sharing that takes place between the Council and its partners ahead of GDPR. This was brought to the Audit Committee in July 2017, and the Information Governance Manager also presented the requirements to senior management teams and to a number of key officer groups such as the Strategic Risk Management Group. SWAP found that “there is regular and transparent communication with partners setting out respective and mutual goals of information sharing and found “efficient use of resources in the governance of data sharing with other public bodies”.

Strong public financial management

Our Finance service was fully staffed during 2017/2018. 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 and Scrutiny Committees. 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.
Our MTFP processes remain critical, and Cabinet in July 2017 approved the continuation of a commissioning and theme-based approach to finding efficiencies (such as through procurement and third party spend), together with service redesign 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 on Accounts Payable, Budgeting and Payroll. Where this was not the case for Accounts Receivable, the audit was discussed at the Audit Committee in November 2017, a new Income Code of Practice launched and is being rolled out. Collection performance improved strongly in the last quarter of the financial year. We have always had a strong track record of recovering the overwhelming majority of money owed to the County Council.

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. The Statement of Accounts presented to Audit Committee in July 2017 was highly commended by the external auditor in terms of quality and timeliness.

Whilst the Corporate Peer Challenge in March 2018 did highlight the financial challenges facing the County Council, it did comment that the Council was “well served by its Financial Services staff” and that it saw “sound financial expertise and advice”.

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 quarterly performance reports are published on our websites. 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 through the Annual Assurance Report at the officer Governance Board, and helpful improvements made, such as where we have improved the timeliness of reporting of our procurement card transactions, after benchmarking with other local authorities.

We have reviewed the Freedom of Information requests that we receive, and are seeking to be more proactive in publishing data that is regularly requested. Progress has been made in a move towards publishing pensions data. We have responded to the MHCLG Strengthening Local Government Transparency Consultation and are awaiting the results.

A new SCC Data Strategy is being developed, designed to improve all of the ways we acquire, record, store, manage, share and use data. This will allow us to provide a better customer service, more efficiently meet statutory requirements and have more open data.

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 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 annual report is taken to Full Council for information along with each Cabinet Member providing annual reports. In addition, where specific decisions are required at Full Council, it receives the Leader and the Cabinet's recommendations where necessary. Details of all key decisions taken are also reported to each Full Council meeting for information and provide a further opportunity for members or the public to ask questions of Cabinet Members. There are also regular reports from the Monitoring Officer, section 151 officer and County Solicitor as and when required. There is also a Constitutional 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, cabinet 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, including the Chair of the relevant Scrutiny Committee and Opposition Spokesperson, ahead of the decision being taken. Our Cabinet Member and officer Key Decision reports are published on our website.

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 October 2017 Working Well Survey. We also report back through Core Brief and through management teams for staff results in their areas.

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 independent reviews and inspections, such as the recent OFSTED reinspection, we have maintained our principal of public reporting and a public action plan to make any recommended improvements, which will be regularly reported on.

Officers have Job Descriptions that set out corporate and individual responsibilities for their role, and there is the Constitution and Officer 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 and Head of HR (or other officers as required) in considering any potential issues that they are addressing. There is the Constitution and Standards Committee that oversees constitutional or conduct matters 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 conformed to the 5 governance requirements of this CIPFA Statement during 2017/2018, and, where they do not, to explain why and how they delivered the same impact.

Statement	SCC 2017/2018 response
The Chief Finance Officer in a public service organisation:	The Director of Finance, Legal and Governance 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. was a member of the Senior Leadership Team attending SLT meetings, and reporting directly to the Chief Executive. 2. was a member of the Commissioning Board (including the Strategic Opportunities Board) and was the Chair of the Governance Board 3. had 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. was (or was through his appointed representative) on all major officer groups and committees such as the QPRM team for OFSTED improvements, Learning Disabilities, SWB 2. was responsible for financial sign off of all Key Decisions before they can be implemented 3. was the Chair of the Strategic Risk Management Group and attends Audit Committee to provide assurance and along with other SLT Directors acts as expert witness for member lines of enquiry 4. signed 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,	1. had sole authority for Financial Regulations, Financial Procedures, the Income Code of Practice and all underlying policies and procedures

economically, efficiently and effectively.	2. had overall responsibility for the internal audit function and plan
4. must lead and direct a finance function that is resourced to be fit for purpose	1. had a finance structure in place with suitably qualified and experienced individuals in all senior positions 2. chaired 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. was a CIPFA qualified accountant, with experience across a wide range of financial disciplines 2. was 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 referred to above
- the Healthy Organisation report previously commissioned from the South West Audit Partnership and the work undertaken by the Governance Board to track all the recommendations made
- the Internal Auditor’s proposed annual opinion report for 2017/18
- officers’ views on the effectiveness of the internal audit function through a review taken to Audit Committee in April 2018, in line with the prevailing 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 during 2017/2018, as summarised in its annual report to Full Council in May 2018
- the positive progress achieved and now acknowledged in response to the previous OFSTED inspections
- comments from other review agencies and inspectorates
- a review of the increasingly varied work undertaken by the Governance Board over the previous financial year
- individual knowledge of individual Governance Board members acting as subject matter experts
- quarterly reports to the Audit Committee relating to risk management and key risks and mitigations

- the report and recommendations of the Corporate Peer Challenge that was hosted in March 2018 and reported in May 2018

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

The internal auditor has confirmed that, subject to the satisfactory completion of the 2017/2018 Internal Audit Plan, she expects to give "Reasonable Assurance" in her Opinion in respect of the areas that they have reviewed during the year, as most were found to be adequately controlled. Generally risks are well managed but some areas require the introduction or improvement of internal controls to ensure the achievement of objectives.

There have been a number of individual audits that have only achieved "Partial Assurance" in 2017/2018, 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. Balancing this, there have been a number of Reasonable Assurance audits completed.

The internal audit process is enhanced by Audit Committee's "calling in" of "Partial Assurance" audits and the monitoring on JCAD of all risks deemed Medium/High or High. Suitable Follow-up from management to internal audit findings remains the key. Evidence suggests that the recommendations are generally actioned, which in her opinion, demonstrates effective control and governance. However, she has commented that the timescales for responding are sometimes in excess of those originally agreed, and therefore the County Council could be exposed to risks over a longer period of time than necessary. This will need to be addressed during the Internal Audit Plan officer responses for 2018/2019.

A formal Report and Opinion from the internal auditor came to the Audit Committee on 21st June 2018.

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.

Conclusion

Officers have concluded overall that there are effective measures in place to deliver governance as set out in the CIPFA / SOLACE 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 there is compliance.

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 monitored during the forthcoming financial year to ensure delivery. This is in accordance with the CIPFA Code of Practice.

Significant governance issues looking forward

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.

In the Internal Audit Plan for 2018/2019, we have again commissioned a Healthy Organisation audit from SWAP. This is a key review carried out across the SWAP partnership to help ensure that there is an adequate governance framework in place. It is proposed that this is run on a 2 year cycle, one year to audit and one year for SCC to respond. This will again look at 8 separate governance themes (Corporate Governance; Financial Management; Risk Management; Performance Management; Commissioning and Procurement; Programme and Project Management; Information Management and People & Asset Management) and the SCC position. Effectively, this provides the basis for an Action Plan on governance issues, to be monitored by the Governance Board in the first instance.

Previously, 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.

In terms of specific and significant governance issues that the County Council will face in the immediate future, the following are considerable matters to address:-

Financial Position

The continued difficult financial position of the County Council is well known. National issues such as the increasing demographic pressures on adults and childrens social services, significant inflation in some areas such as transport, plus the removal of the Revenue Support Grant (over £73m since 2013/2014 for Somerset) have left local authorities seeking efficiencies and savings to bridge the gap (over £120m savings in Somerset over the last 7 years). Some recognition of the scale of the problem has been forthcoming in the shape of an Adult Social Care precepting power and the improved Better Care Fund grant.

Whilst the Council is able to present a balanced budget for 2018/19, it is on the basis that all savings proposals included are achieved and services manage demand within approved budgets. The estimated financial gap for the next 3 years (up to and including 2021/2022) was £15.550m as at the Cabinet and Council meetings in February 2018.

The County Council, at its own instigation, hosted a Corporate Peer Challenge (sometimes referred to as a Peer review) in March 2018. Whilst the final report was very positive around a number of themes, (including governance as outlined in some points included above), it did highlight the financial difficulties that the County Council faces, and the need to deliver current and future savings in full and on time. The report sets out a number of recommendations that would address the financial concerns, focussing on “strong financial accountability in all areas of the organisation”, with a framework “owned corporately and consistently applied”.

The County Council is addressing all these recommendations as a matter of urgency. In May 2018, the Chief Executive has launched a programme of change actions under a Financial Imperative heading. The Chief Executive reported to Full Council that “The Council’s key focus this year must be to secure our financial sustainability. We must and we will reduce spending wherever we can to ensure our

budget can support the vital work we do." Communications out to all staff, through a variety of media (Your Somerset, meetings, direct e-mails, intranet site, requests for savings ideas) have made it clear that this "should be everyone's overriding priority".

Significant governance has been put in place for this programme of work. This will ensure that savings and efficiency ideas are captured via a pipeline and brought forward to the Senior Leadership Team (SLT) for evaluation and (subject to the usual democratic Decision-making process) implementation if acceptable and deliverable. Work teams have been set up to look at Key Lines of Enquiries (KLOEs), which are reviewing tactical financial opportunities; a review of existing savings and new opportunities; a workforce review; data analysis and insight to strengthen our commissioning; and communications. A revised 10 Point Plan has been issued to control expenditure and a new Recruitment Protocol for vacancy management.

Inevitably, developing and delivering savings are increasingly difficult to find and implement, and the impact on services are therefore commensurately higher each year. The Senior Leadership Team has the task of addressing both in-year and forward year cost pressures. We have continued to be open with staff and partners as to the nature of the problem through Roadshows and communications such as Your Somerset.

In addition to looking at fixing the short and medium term budget issues, the County Council continues to look to the longer term economic prosperity of the County and region. Working with the LEP and other partners, we continue to bring in substantial Growth Deal funding and to seek other critical infrastructure funding such as the Housing Infrastructure Fund Forward. We continue to maximise opportunities from Hinkley and Connecting Devon and Somerset.

Heart of the South West (HotSW) Joint Committee

After a successful period acting as a Shadow Committee, and having received the necessary consents and approvals from all 19 partner authorities, the Heart of the South West Joint Committee met formally for the first time on 23rd March 2018.

The key purpose of the Joint Committee is to be the vehicle through which the HotSW partners will ensure that the desired increase in productivity across the area is achieved.

Currently, the only delegated function of the Joint Committee is the approval of the HotSW Productivity Strategy, although it is probable that other functions will subsequently be delegated. The Joint Committee shall develop, agree and ensure the HotSW Productivity Plan in collaboration with the LEP and the Constituent Authorities. It will continue the negotiations with central government on the possibility of achieving devolved responsibilities, funding and related governance amendments to assist with the delivery of the Productivity Plan, and to secure delivery of the Government's strategic infrastructure commitments, e.g., strategic road and rail transport improvements. It will work with the LEP to identify and deliver adjustments to the LEP's democratic accountability and to assist the organisation to comply with the revised (November 2016) LEP Assurance Framework.

Somerset County Council has been appointed by the Constituent Authorities as the Administering Authority for the Joint Committee. Providing support to the Joint Committee will inevitably require the County Council to adapt its own governance arrangements to align. Internally, the County Council has already amended its structure in order to provide a senior officer to act as the Strategic Manager – Partnership Governance, who will ensure that the new Joint Committee adheres to its governance arrangements and to run the public committee.

Local Government Reorganisation

Following preliminary work done internally during 2017/2018 as to the potential financial benefits for Somerset, (potentially from £18m to £28m), the Leader of the Council took the decision in May 2018 to commission feasibility work to explore whether a new local authority model (such as the reorganisation of local government authorities in Somerset) could better deliver the Council's priorities and provide additional benefit in comparison to the existing two-tiered model of local government. Whilst the decision clearly states that it is "only seeking approval to research, evaluate, engage and support" at this stage, should the outline business case be positive overall, then clearly there would be substantial governance challenges to manage in order to deliver any change to the status quo.

The proposals involve establishing a member working group, chaired by the Leader of the Council, to oversee the development of an outline business case and make recommendations. The Leader of the Council will also lead on ongoing partnership working and engagement with key stakeholders such as District Leaders, Somerset's MPs and government representatives.

Council Vision

Following the elections in May 2017, during 2017/2018, officers and members have been tasked with a new Council Vision for Somerset County Council. This was taken to Cabinet and Council in November 2017, and the final Vision returned to the Council meeting for adoption in May 2018. The Vision summaries three key approaches for our residents; to have ambition; to have confidence; to improve outcomes.

This Vision can only be achieved by close working with our partners, from Police, Fire and Health, through the Voluntary and Community sectors, and finally with our residents, businesses and communities. The Vision has been widely shared and there have been a number of other events and opportunities for our staff and partners to influence the Vision including a round of Leader and Chief Executive Road shows for staff and a strategic partners' event held in January and March 2018.

This is a strategic Vision; therefore it does not have direct financial impacts. It does however set the ambitions, priorities and principles that will underpin all key decisions as well as being a reference point in the Medium Term Financial Plan and in Commissioning and Service plans. It is therefore the key building block for the County Council going forward, against which all decisions will be measured.

A wider Vision for Somerset as a whole has been developed in parallel with the County's; it has been agreed by the Health and Wellbeing Board that this wider Vision should be adopted and promoted alongside its "Improving Lives" strategy.

OFSTED

From having been judged as "Inadequate" in the OFSTED inspection carried out in January and February 2015, the County Council has been working with Essex County Council as "the Department's advisers". By December 2016, the Minister of State for Vulnerable Children and Families had 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.

Ofsted re-inspected Somerset Services for children in need of help and protection in November 2017. The report was published in January 2018 and provided an overall outcome of “Requires Improvement to be Good” in all service areas, other than Adoption which was judged to be Good. The report outlines 13 recommendations for improvement which have been incorporated into Programme 6 of the Children and Young People’s Plan for 2018/19.

The OFSTED report made it clear that whilst some areas of the service were viewed as strong (such as the front door service), that there were still a number of areas that were weaker (such as Safeguarding & Corporate Parenting arrangements), and that overall the judgement indicated that services were just over the line. It is clear that there is still progress to be made in getting to Good, and the appropriate tracking of progress against the recommendations is essential, such as through the Scrutiny for Policies Children and Families Committee.

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 and support the delivery of the Council’s priorities.

Pat Flaherty	**David Fothergill**
Chief Executive	**Leader of the Council**
July 2018	*July 2018*

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 2017/18, 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 has 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.

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 2.55% (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 50.

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

<u>Financial Liabilities</u>

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

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

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

Financial Assets

Financial Assets are classified into two types:

1) Loans and receivables – 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 Receivables

Loans and receivables 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.

Available-for-sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, 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 amortised cost of the asset multiplied by the effective rate of interest for the instrument.

Where there are no fixed or determinable payments, income is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council. Assets are maintained in the Balance Sheet at fair value. Values are based on the following techniques:

- Instruments with quoted market prices – the market price
- Other instruments with fixed and determinable payments – discounted cashflow analysis
- Equity shares with no quoted market prices – multiple valuation techniques (which include market approach, income approach and cost approach)

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly
- Level 3 inputs – unobservable inputs for the asset

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for Sale Financial Assets. The exception is where impairment losses have been incurred - these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve. 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 or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

If the asset has fixed or determinable payments, 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. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the de-recognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve. Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses)

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 28.

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	64 years (based on the weighted average life of the separate infrastructure components)
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 2017/18, 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 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 assets 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 77 within our boundary);
- Voluntary controlled (61 within our boundary);

- Voluntary aided (33 within our boundary); and
- Foundation (7 within our boundary).

The remaining type of state school, an Academy, (of which there are 87 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 48.

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 are 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 2017/18 can be found in the Adjustments between accounting basis and funding basis under regulation note to the accounts (page 80).

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 2017			Comprehensive Income and Expenditure Statement for the year ended 31 March 2018	31 March 2018			
£millions Expenditure	£millions Income	£millions Net		£millions Expenditure	£millions Income	£millions Net	Notes
			Continuing Operations				
167.828	-63.828	104.000	Adults and Health - Operations *	121.255	-46.054	75.201	5
62.729	-2.447	60.282	Children & Families - Operations	67.833	-3.470	64.363	5
36.837	-3.494	33.343	Learning Disabilities *	89.082	-32.722	56.360	5
46.049	-19.163	26.886	Somerset Waste Partnership	46.460	-19.633	26.827	5
18.216	-1.172	17.044	Adults and Health - Commissioner	8.285	-0.300	7.985	5
78.808	-49.958	28.850	Children & Learning - Commissioning Central	79.505	-52.398	27.107	5
36.934	-0.961	35.973	Highways	21.301	-1.059	20.242	5
23.518	-22.638	0.880	Public Health	22.831	-22.609	0.222	5
94.687	-58.545	36.142	ECI Other Services	71.527	-43.170	28.357	5
52.467	-8.065	44.402	Support Services & Other Corporate Spending	57.569	-8.618	48.951	5
221.059	-202.300	18.759	Individual Schools Budget	228.534	-204.148	24.386	5
839.132	**-432.571**	**406.561**	**Surplus (-) / Deficit on Continuing Operations**	**814.182**	**-434.181**	**380.001**	
13.900	-	13.900	Other operating expenditure	19.453	-	19.453	11
51.360	-9.303	42.057	Financing and investment income and expenditure	49.607	-8.211	41.396	12
-	-390.957	-390.957	Taxation and non-specific grant income	-	-378.866	-378.866	13
904.392	**-832.831**	**71.561**	**Surplus (-) or Deficit on Provision of Services**	**883.242**	**-821.258**	**61.984**	
			Items that will not be reclassified to the (Surplus) or Deficit on the Provision of Services				
		-16.680	Surplus (-) or Deficit on revaluation of non-current assets			-11.403	14
		118.163	Remeasurement gains (-) / losses on pension assets/liabilities			-71.117	50
			Items that may be reclassified to the (Surplus) or Deficit on the Provision of Services				
		-	Surplus (-) or Deficit on revaluation of available for sale financial assets			0.366	42
		101.483	**Other Comprehensive Income and Expenditure**			**-82.154**	
		173.044	**Total Comprehensive Income and Expenditure**			**-20.170**	

*During 2017/18, Adults with Learning Disabilities (previously included within Adults and Health Operations) were reported differently to members and included within Learning Disabilities. The values in 2016/17 for this service were income of £24.179m and expenditure of £46.899. As this does not constitute a change in accounting policy we have not restated our comparatives. The above table also shows additional disclosure of particular ECI services (SWP, Highways and Other ECI services) that are reported as one ECI line in the authority's outturn reported to members.

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 2017 & 2018

	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 2016	41/42	**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	14/50	-	-	-	-	-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	9	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 carried forward	41/42	**49.632**	**3.405**	**8.010**	**61.047**	**-249.822**	**-188.775**
Movement in Reserves during 2017/18							
Surplus or deficit (-) on provision of services		-61.984	-	-	-61.984	-	-61.984
Other Comprehensive Income and Expenditure	14/42/50	-	-	-	-	82.154	82.154
Total Comprehensive Income and Expenditure		**-61.984**	**-**	**-**	**-61.984**	**82.154**	**20.170**
Adjustments between accounting basis & funding basis under regulations	9	55.247	0.296	0.511	56.054	-56.054	-
Increase/Decrease (-) in Year		**-6.737**	**0.296**	**0.511**	**-5.930**	**26.100**	**20.170**
Balance as at 31 March 2018	41/42	**42.895**	**3.701**	**8.521**	**55.117**	**-223.722**	**-168.605**

NB/ The Earmarked Reserve & General Fund balances have been consolidated into one column. Further details of the individual balances can be found in Note 41.

Balance Sheet as at 31 March 2018

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

31 March 2017 £millions	Balance Sheet	31 March 2018 £millions	Notes
903.152	Property, Plant & Equipment	909.569	24
1.934	Heritage assets	1.934	31
5.563	Intangible Non-Current assets	4.390	25
15.129	Long term investments	9.734	33
20.978	Long term debtors	22.538	33
946.756	**Long term assets**	**948.165**	
180.592	Short term Investments	174.336	33
0.211	Assets held for sale	1.709	27
7.588	Inventories	7.605	35
63.945	Short term debtors	58.474	36
28.465	Cash and cash equivalents	26.022	43
280.801	**Current Assets**	**268.146**	
-88.914	Short term creditors	-78.862	37
-1.751	Revenue Grants/Contributions Receipts in Advance	-1.809	40
-44.980	Capital Grants/Contributions Receipts in Advance	-81.697	40
-0.442	Long term borrowing repayable < I year	-0.451	33
-8.386	Provisions	-6.597	39
-9.665	Short term borrowing	-8.383	33
-	Overdraft	-1.973	43
-154.138	**Current Liabilities**	**-179.772**	
-0.342	Provisions	-0.256	39
-336.030	Long term borrowing repayable > I year	-335.684	33
-879.493	Other long term liabilities	-845.348	38
-5.938	Revenue Grants/Contributions Receipts in Advance	-7.533	40
-40.391	Capital Grants/Contributions Receipts in Advance	-16.323	40
-1,262.194	**Long term liabilities**	**-1,205.144**	
-188.775	**Net Assets**	**-168.605**	
61.047	Usable reserves	55.117	41
-249.822	Unusable Reserves	-223.722	42
-188.775	**Total Reserves**	**-168.605**	

Interim Director of Finance
26th July 2018

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.

2016/17 £millions		2017/18 £millions	Notes
71.561	Net surplus (-) or deficit on the provision of services	61.984	
-83.847	Adjustments to net surplus or deficit on the provision of services for non cash movements	-110.496	44
108.054	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	91.304	44
95.768	Net cash flows from Operating Activities	**42.792**	44
-90.061	Investing Activities	-41.117	45
3.325	Financing Activities	2.741	46
9.032	**Net increase (-) or decrease in cash and cash equivalents**	**4.416**	
37.497	**Cash and cash equivalents at the beginning of the reporting period**	**28.465**	
28.465	**Cash and cash equivalents at the end of the reporting period**	**24.049**	43

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

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

Notes to the core financial statements

Note 1: Accounting Standards That Have Been Issued But Have Not Yet Been Adopted

The Authority has yet to adopt the following accounting standards:

- IFRS9 – Financial Instruments (effective date 1st Jan 2018)

The objective of this IFRS is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.

The new standard replaces IAS39 Financial Instruments: Recognition and Measurement, and will introduce the following key changes:

- Classification and measurement of financial assets – based on the contractual cash flows of the arrangement;
- The introduction of a new impairment model based on expected losses (rather than incurred loss as per IAS39)

The new standard removes the Asset Held for Sale classification. Under the new classification rules, we will be required to restate the balance of £0.366m in our Available-for-sale Financial Instruments Adjustment Account as a charge to the General Fund – Revenue section of our Usable Reserves, if no statutory override is granted. Upon transition to IFRS 9, changes in asset and reserve balances will be treated as a movement in reserves on 1st April 2018. No restatement of the 2017 and 2018 balance sheets or 2017/18 Comprehensive Income & Expenditure Statement is permitted or required.

As our current impairment recognition methodology is very prudent, we do not anticipate any material change in the value of our financial assets as a result of the new impairment model being implemented by this standard.

The new standard also introduces new hedge accounting requirements and presentational changes on the effects of changes in fair value of our financial liabilities attributable to credit risk, but these are not expected to have any impact on our accounts when we apply this standard retrospectively from 1st April 2018.

- IFRS15 – Revenue from Contracts with Customers (effective date 1st Jan 2018)

This standard specifies how and when the authority will recognise revenue as well as requiring the authority to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers.

We do not expect this standard to have a material impact on our accounts when we apply the standard retrospectively from 1st April 2018.

- Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses (effective date 1st Jan 2017)

These amendments clarify when a deferred tax asset should be recognised for unrealised losses. We do not expect these amendments to have a material impact on our accounts when they are applied retrospectively from 1st April 2018.

- Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative (effective date 1st Jan 2017).

These amendments are intended to clarify IAS7 Statement of Cashflows, to improve information provided to users of financial statements about an entity's financing activities. We do not expect these amendments to have a material impact on our accounts when they are applied prospectively from 1st April 2018.

There was also an IFRIC and a number of narrow-scope amendments that were not adopted in time for inclusion in the 2018/19 Code and therefore will not be applied until 1st April 2019:

- IAS 40 Investment Property: Transfers of Investment Property

To provide guidance on transfers to/from investment properties.

- Annual Improvements to IFRS Standards 2014-2016 Cycle, and

The primary objectives of these improvements are to enhance the quality of standards, by amending existing IFRSs to clarify guidance and wording.

- IFRIC 22 Foreign Currency Transactions and Advance Consideration

The purpose of this interpretation is to clarify the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.

We do not expect these amendments to have a material impact on our accounts when they are applied from 1st April 2019.

Note 2: Critical Judgements in Applying Accounting Policies & Changes in Accounting Estimates

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 16 (page 85)

- 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 28 (page 100).

- The Authority has reviewed its relationships with other entities and has concluded that we only have Futures for Somerset which would fall under the Group Accounts criteria (as an associate). Although we have significant influence over the entity, our share of the assets and liabilities are not material so no Group accounts are produced. Further details on our relationship with Futures for Somerset can be found on page.142;

- 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. 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. These bonds will only be called should the new employers be unable to meet their pension obligations. Having reviewed these arrangements, the Authority has determined that no liability has arisen during the financial year so these obligations are not recognised in the Authority's accounts.

- 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 2017/18 where other HoSW LEP partners hold the return obligations have not been recognised in the Authority's accounts.

- The Authorities significant contracts have been reviewed and no embedded finance leases or service concessions were found. The Authority does have one Private Finance Initiative (PFI) contract for the provision of schools; Note 30 (page 107) 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.

Changes in Accounting Estimates

During 2017/18, we reviewed the useful economic lives (UEL) of our Property; Plant & Equipment to ensure the correct depreciation charge was being charged to the services receiving the benefit from the asset. As part of our review, it was decided that a weighted average life based on the separate components was more suitable for our Infrastructure assets than the standard life of 25 years used in previous years.

The weighted average UEL (based on Highways Asset Management Financial Information Group recommendations) of an 64 years has resulted in a reduction to the depreciation charged to the Highways line of the Continuing Operations section of the Comprehensive Income and Expenditure Statement of around £17.799m during the year.

Note 3: Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

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

The items in the Balance Sheet at 31 March 2018 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 £4.220 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 our accounting policy on page 53. Where the measurement basis is not Historic Cost the Fair Value of the asset is estimated. The Authority is dependent on information provided by professional valuers to ensure the fair value of assets is true and fair.	If asset values were understated by 1% PPE would need to increase by £4.933m and subsequent depreciation would increase by £0.129m
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 £1.187m as result of the localisation of business rates.	The liabilities are based on a best estimate of the expenditure required to meet the obligation. An increase in this figure would increase the liability. 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 £118,700.

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 £33.832 million (see the sensitivity analysis on page 141 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 £558,374.	If our assumptions are incorrect by 10% the increase or decrease in our impairment would be approximately £55,837.
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 2017/18 there were no major changes. 2) An average rate for national insurance and superannuation has been made based on the actual charge for the year. This average has been applied to all staff.	If accruals are not correctly estimated they can have a substantial effect on the current year's result and consequently the following year when the accrual is reversed. The accrual may be too high/low for the movement in the percentage of teachers taking up another position differs. 1) If actuals differ from the sample average, the accrual may be substantially under or over estimated. If the staff that left held excessive amounts of leave and flexi and this was paid off, it would affect the sample calculation and the accrual may be over/under estimated. 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 186 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 £1.157m.

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 £7.334m contingent rent and an additional £17,613 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 112.	The Authority uses an investment approach based on a derived market yields to measure the fair value of some of its surplus properties. The significant unobservable inputs used in the fair value measurement include management assumptions regarding rent growth, occupancy levels, bad debt levels, tenant covenant strength, etc Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value. Some of the key variables are described further in note 28 on page 100.

Note 4: Events after the Balance Sheet Date

One VA, two VC and one Community school converted to Academy status between 1st April 2018 and 26th July 2018. The conversion of these schools have reduced the Authority's balance sheet by a further £1.006m in respect to the assets transferring with them. Their reserves also move with them.

Note 5: 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.

2016/17				2017/18		
Net Expenditure Chargable to the General Fund £millions	Adjustments between Funding and Accounting basis £millions	Net Expenditure in the Comprehensive Income and Expenditure Statement £millions	Expenditure & Funding Analysis for the year ended 31 March 2017	Net Expenditure Chargable to the General Fund £millions	Adjustments between Funding and Accounting basis £millions	Net Expenditure in the Comprehensive Income and Expenditure Statement £millions
102.976	1.024	104.000	Adults and Health - Operations	73.134	2.067	75.201
58.452	1.830	60.282	Children & Families - Operations	60.240	4.123	64.363
28.915	4.428	33.343	Learning Disabilities	56.229	0.131	56.360
25.882	1.004	26.886	Somerset Waste Partnership	25.408	1.419	26.827
16.899	0.145	17.044	Adults and Health - Commissioner	7.847	0.138	7.985
28.604	0.246	28.850	Children & Learning - Commissioning Central	26.176	0.931	27.107
17.753	18.220	35.973	Highways	11.250	8.992	20.242
0.841	0.039	0.880	Public Health	0.124	0.098	0.222
23.545	12.597	36.142	ECI Other Services	24.142	4.215	28.357
39.955	4.447	44.402	Support Services & Other Corporate Spending	33.830	15.121	48.951
4.026	14.733	18.759	Individual Schools Budget	0.290	24.096	24.386
347.848	**58.713**	**406.561**	**Surplus (-) / Deficit on Continuing Operations**	**318.670**	**61.331**	**380.001**
-313.475	-21.525	-335.000	Other Income & Expenditure	-311.933	-6.084	-318.017
34.373	**37.188**	**71.561**	**Surplus (-) or Deficit on Provision of Services**	**6.737**	**55.247**	**61.984**
84.005			Opening General Fund Balance at 31 March 2017	49.632		
34.373			Less Deficit on General Fund in Year	6.737		
49.632			**Closing General Fund Balance at 31 March 2018**	**42.895**		

Note 6: 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.

2017/18

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	0.094	1.975	-0.002	2.067
Children & Families - Operations	0.625	3.497	0.001	4.123
Learning Disabilities	0.138	0.000	-0.007	0.131
Somerset Waste Partnership	1.279	0.140	-	1.419
Adults and Health - Commissioner	-	0.138	-	0.138
Children & Learning - Commissioning Central	0.318	0.625	-0.012	0.931
Highways	8.574	0.418	-	8.992
Public Health	0.010	0.088	-	0.098
ECI Other Services	2.095	2.120	-	4.215
Support Services & Other Corporate Spending	18.810	-3.640	-0.049	15.121
Individual Schools Budget	16.570	7.833	-0.307	24.096
Net Cost of Services	**48.513**	**13.194**	**-0.376**	**61.331**
Other Income & Expenditure				
Other operating expenditure	18.670	-	-	18.670
Financial and investment income and expenditure	-1.346	24.613	-0.009	23.258
Taxation and non-specific grant income and expenditure	-49.812	-	1.800	-48.012
General Fund (Surplus)/Deficit	**16.025**	**37.807**	**1.415**	**55.247**

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
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**

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;
- 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; and
- The in-year reduction of our capitalised Icelandic investment impairment.

Note 7: 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	2016/17 (restated) £ millions	2017/18 £ millions
Employee expenses	300.401	282.019
Other service expenses	400.872	422.922
Support service recharges	35.742	32.289
Depreciation, amortisation and impairment	108.864	83.863
Interest payments (including pension interest cost)	44.614	42.696
Precepts & levies	0.763	0.783
Loss on revaluation of current assets held for sale	0.119	1.898
Gain or Loss on disposal of fixed assets	13.018	16.772
Total Expenditure	**904.392**	**883.242**
Fees, charges & other service income	-126.638	-125.865
Interest and investment income	-2.882	-2.561
Income from council tax/ NNDR/ SRA	-271.825	-285.252
Government grants and contributions	-431.486	-407.580
Total Income	**-832.831**	**-821.258**
Surplus or deficit on the provision of services	**71.561**	**61.984**

* The 2016/17 income is restated to reclassify REFCUS grant as government grant and contributions and not within fees, charges & other service income.

Note 8: Segmental Reporting

<u>Segmental Assets</u>

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	2016/17 £million	2017/18 £million
Adults and Health - Operations	2.625	2.074
Adults and Health - Commissioner	0.441	0.212
Children & Families - Operations	0.530	0.489
Children & Learning - Commissioning Central	0.586	0.564
Learning Disabilities	0.297	0.047
ECI - Commissioning	0.012	0.009
ECI - Operations	3.073	5.086
Public Health	0.064	0.028
Business Development	1.089	1.113
Customers & Communities	0.126	0.001
Schools & Early Years	0.077	0.059
Support Services for Education	0.585	0.566
Finance & Performance	1.078	0.399
Total - as reported at Outturn	**10.583**	**10.647**

Reconciliation of segmental debt to the total short term debtor reported in the Balance Sheet	2016/17 £million	2017/18 £million
Segmental Debt - as reported at Outturn	10.583	10.647
<u>Debt - not reportable at Outturn:</u>		
Collection Fund Debtor	11.686	8.391
Capital Debtors	11.651	9.377
Payments in Advance	18.755	16.625
VAT Debtor	4.853	6.046
Other year-end accrued debt	6.417	7.388
Short-term debtor - as reported in Balance Sheet	**63.945**	**58.474**

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.

2017/18

For the year ended 31 March 2018	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	-22.254	-0.839	-3.828	-0.794	-2.676	-7.165	-11.975	-5.571	-0.575	**-55.677**
Revenues from transactions with other operating segments of the authority	-2.234	-3.699	-0.129	-0.192	-10.389	-23.011	-3.269	-19.665	-1.711	**-64.299**
Non Cash Items:										
Capital Charges (Depreciation etc)	0.109	0.318	0.138	8.905	14.849	26.377	28.978	0.136	4.053	**83.863**
IAS19 Employee Benefit adjustment	1.975	0.625	-	0.418	0.009	7.833	2.120	1.225	3.863	**18.068**

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**

Note 9: Adjustments between Accounting Basis and Funding Basis under Regulation

2017/18

Adjustments between accounting basis and funding basis under regulations for the year ended 31 March 2018	Usable Reserves General Fund - Schools & Other	Capital Receipts Reserve	Capital Grants & Contributions Unapplied
	£millions	£millions	£millions
Adjustments to Revenue Resources:			
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:			
Pension Costs (transferred to/(from) the Pensions Reserve)	37.807	-	-
Council Tax and NDR (transferred to/(from) the Collection Fund Adj Account)	1.800	-	-
Holiday Pay (transferred to/(from) the Accumulated Absence Adj Account)	-0.336	-	-
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)	23.399	-	84.820
Total Adjustments to Revenue Resources	**62.670**	**-**	**84.820**
Adjustments between Revenue and Capital Resources:			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	-7.803	7.803	-
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	0.170	-0.170	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	-1.482	-	-
Flexible Use of Capital Receipts directive (transfer to the Capital Adjustment Account)	4.001	-	-
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	-2.309	-	-
Total Adjustments between Revenue and Capital Resources	**-7.423**	**7.633**	**-**
Adjustments to Capital Resources:			
Use of the Capital Receipts Reserve to finance capital expenditure	-	-3.365	-
Use of the Capital Receipts Reserve to finance the Flexible Use of Capital Receipts directive	-	-4.001	-
Application of capital grants to finance capital expenditure	-	-	-84.309
Cash payments in relation to deferred capital receipts	-	0.029	-
Total Adjustments to Capital Resources	**-**	**-7.337**	**-84.309**
Total Adjustments	**55.247**	**0.296**	**0.511**

2016/17

Adjustments between accounting basis and funding basis under regulations for the year ended 31 March 2017	Usable Reserves: General Fund - Schools & Other £millions	Usable Reserves: Capital Receipts Reserve £millions	Usable Reserves: 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	-	-
Council Tax and NDR (transferred to/(from) the Collection Fund Adj Account)	-1.161	-	-
Holiday Pay (transferred to/(from) the Accumulated Absence Adj Account)	-0.425	-	-
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	-	104.861
Total Adjustments to Revenue Resources	**47.899**	**-**	**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	-
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	0.079	-0.079	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	-1.283	-	-
Flexible Use of Capital Receipts directive (transfer to the Capital Adjustment Account)	2.388	-	-
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	-8.622	-	-
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	-	-18.770	-
Use of the Capital Receipts Reserve to finance the Flexible Use of Capital Receipts directive	-	-2.388	-
Application of capital grants to finance capital expenditure	-	-	-106.239
Cash payments in relation to deferred capital receipts	-	0.028	-
Total Adjustments to Capital Resources	**-**	**-21.130**	**-106.239**
Total Adjustments	**37.188**	**-17.936**	**-1.378**

Note 10: Transfers to/from Earmarked Reserves

This note shows the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund in 2017/18.

	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 £millions	Transfers Out 2017/18 £millions	Transfers In 2017/18 £millions	Net Movement 2017/18 £millions	Balance at 31 March 2018
General Fund:									
Operating Accounts	1.119	-1.555	-	-1.555	-0.436	-0.244	0.217	-0.027	-0.463
Economic Development Fund	1.143	-0.854	0.193	-0.661	0.482	-0.092	0.161	0.069	0.551
Reserves for capital purposes	9.636	-6.177	-	-6.177	3.459	-1.064	0.300	-0.764	2.695
Invest to Save Fund	0.379	-0.301	-	-0.301	0.078	-0.012	0.301	0.289	0.367
Adult Social Care Capacity Planning Reserve	0.253	-0.253	-	-0.253	0.000	-	-	-	-
Carers Pooled Budget	0.059	-0.026	-	-0.026	0.033	-0.033	-	-0.033	-
LD Equalisation Reserve	-	0.000	-	-	-	-4.910	-	-4.910	-4.910
Somerset Drug & Alcohol	0.345	-0.210	-	-0.210	0.135	-0.009	-	-0.009	0.126
Public Health Earmarked	-	-0.720	2.077	1.357	1.357	-	-	-	1.357
UC Equalisation Reserve	1.165	-1.165	-	-1.165	-	-	-	-	-
Repairs and Maintenance Fund (inc BMIS)	-1.276	-1.225	-	-1.225	-2.501	-0.888	-	-0.888	-3.389
Supply Mutual Fund Reserve	0.546	-0.034	-	-0.034	0.512	-	0.012	0.012	0.524
Legal Services - schools earmarked	0.018	-0.018	-	-0.018	-	-	-	-	-
BSF Bridgwater Equaliation Reserve	3.697	-	1.102	1.102	4.799	-1.014	0.912	-0.102	4.697
Futures for Somerset	-	-	-	-	-	-	0.084	0.084	0.084
Elections	0.483	-	0.250	0.250	0.733	-0.691	-	-0.691	0.042
LATS Earmarked Reserve	0.126	-0.126	-	-0.126	-	-	-	-	-
Hinkley Project	0.023	-	-	-	0.023	-	-	-	0.023
Somerset Rivers Authority	1.416	-0.895	-	-0.895	0.521	-0.109	-	-0.109	0.412
Flood Recovery & 20 year plan	7.861	-6.798	-	-6.798	1.063	-0.414	-	-0.414	0.649
Total Transport Pilot Fund	0.291	-0.051	-	-0.051	0.240	-0.093	-	-0.093	0.147
Sustainable Drainage Funding	0.107	-0.036	-	-0.036	0.071	-	-	-	0.071
Library renewal book fund	1.500	-1.346	-	-1.346	0.154	-0.154	-	-0.154	-
Superfast Broadband	0.493	-0.296	-	-0.296	0.197	-0.142	-	-0.142	0.055
SWP - WDA	1.099	-0.918	0.628	-0.290	0.809	-0.508	-	-0.508	0.301
Environment Commuted Sums Reserve	0.902	-	0.325	0.325	1.227	-0.154	0.007	-0.147	1.080
Local Enterprise Partnership (LEP)	0.650	-0.054	2.180	2.126	2.776	-1.235	0.666	-0.569	2.207
SRA Precept 2016/17	-	-0.259	2.142	1.883	1.883	-	0.961	0.961	2.844
Targeted Youth	0.012	-0.012	-	-0.012	-	-	-	-	-
SEN reform grant	0.565	-0.381	-	-0.381	0.184	-0.003	-	-0.003	0.181
SAPHTO Funds	0.032	-0.016	-	-0.016	0.016	-0.009	-	-0.009	0.007
S31 Grants	0.944	-0.944	-	-0.944	-	-	-	-	-
Change Programme	0.753	-0.753	-	-0.753	-	-	-	-	-
School Improvement Board	0.110	-0.110	-	-0.110	-	-	-	-	-
Youth Bank	0.032	-0.020	-	-0.020	0.012	-0.002	-	-0.002	0.010
Central Schools Budget - Compact	0.749	-0.354	-	-0.354	0.395	-	0.338	0.338	0.733
Various DSG	-	-3.235	0.061	-3.174	-3.174	-2.679	1.236	-1.443	-4.617
Schools CLPs	-		0.535	0.535	0.535	-0.535	-	-0.535	-
S106 funds	0.145	-0.004	0.085	0.081	0.226	-0.007	0.107	0.100	0.326
Insurance Fund Reserve	4.190	-2.882	-	-2.882	1.308	-	2.457	2.457	3.765
Directorate Budget Carry Forwards	-2.102	-21.026	14.146	-6.880	-8.982	-22.984	24.911	1.927	-7.055
Total excluding School Balances	37.465	-53.054	23.724	-29.330	8.135	-37.985	32.670	-5.315	2.820
Balances held by schools under a scheme of delegation	25.530	-23.718	19.528	-4.190	21.340	-19.627	17.433	-2.194	19.146
Total	**62.995**	**-76.772**	**43.252**	**-33.520**	**29.475**	**-57.612**	**50.103**	**-7.509**	**21.966**

Note 11: Other Operating Expenditure

2016/17 £millions		2017/18 £millions
13.018	(Gain)/losses on the disposal of non-current assets	16.772
0.119	Loss on the revaluation of current assets held for sale	1.898
	Levies:	
0.653	- Environment Agencies	0.669
0.110	- Devon and Severn IFCA	0.114
13.900		**19.453**

The loss on disposal of non-current assets during 2017/18 was predominantly due to schools converting to academy status and the transfer of a school building to the Diocese.

Note 12: Financing and Investment Income and Expenditure

This includes interest from temporarily investing the Authority's revenue balances, the surplus/deficit on our trading activities and the financing income element of a finance lease agreement with Somerset Care Ltd. From 2017/18 it also includes interest received from our long-term investment in the CCLA Property Fund.

2016/17 £millions		2017/18 £millions
19.194	Interest payable and similar charges	19.308
25.420	Net pensions interest cost (on the defined liability)	23.388
-2.882	Interest receivable and similar income	-2.561
0.325	Deficit from trading activities (see note 15)	1.261
42.057		**41.396**

Note 13: Taxation and Non-Specific Grant Income

2016/17 £millions		2017/18 £millions
-205.855	Council Tax income	-217.487
-63.551	National Non-Domestic Rates	-65.290
-2.419	Somerset Rivers Authority Precept	-2.475
-60.901	Non-ringfenced government grants	-43.801
-58.231	Capital grants and contributions	-49.813
-390.957		**-378.866**

Note 14: Surplus or deficit on revaluation of fixed assets

2016/17 £millions		2017/18 £millions
-23.480	Gains credited to the Revaluation Reserve	-22.556
6.800	Losses charged to the Revaluation Reserve	11.153
-16.680		-11.403

Note 15: Trading Operations

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

2016/17 Total Expenditure £millions	2016/17 Turnover (Income) £millions	2016/17 Surplus (-) or deficit £millions	Trading unit	2017/18 Total Expenditure £millions	2017/18 Turnover (Income) £millions	2017/18 Surplus (-) or deficit £millions
1.832	-1.780	0.052	Dillington House	1.723	-1.408	0.315
20.916	-20.643	0.273	Support Services for Education	24.853	-23.907	0.946
22.748	**-22.423**	**0.325**	**Surplus (-) or deficit on trading activities**	**26.576**	**-25.315**	**1.261**

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 16: Pooled Budgets

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

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

2016/17 £millions	**Integrated Community Equipment Service (previously known as the Joint Equipment Service)**	**2017/18 £millions**
	Income from:	
-1.236	Adults and Health Service	-1.282
-0.320	Children and Learning Service	-0.197
-1.393	Somerset Clinical Commissioning Group (Including Continuing Healthcare Income)	-1.257
-1.305	Other Grant Income	-1.269
-4.254	Total income	-4.005
	Less the following spending:	
4.098	Equipment, delivery costs, minor work	3.732
0.096	Management and administration	0.099
4.194	Total spending	3.831
-0.060	**Overspending or underspending (-)**	**-0.174**

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

2016/17 (Restated) £millions	Learning Disabilities Service	2017/18 £millions
	Income from:	
-48.731	Adults and Health Service	-60.115
-18.148	Somerset Clinical Commissioning Group	-20.322
-0.014	Somerset Partnership	0.000
-7.047	Income from charges and grant income	-5.490
-73.940	Total income	-85.927
	Less the following spending:	
30.664	Residential services	34.848
26.914	Supported housing	29.519
9.653	Day services	8.825
11.532	Domiciliary Care	15.822
3.385	Community teams	1.810
82.148	Total spending	90.824
8.208	**Overspending or underspending (-)**	**4.897**

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.

2016/17 £millions	Carers	2017/18 £millions
	Income from:	
-0.224	Adults and Health Service	-0.226
-0.231	Somerset Clinical Commissioning Group	-0.231
-0.059	Earmarked Reserve Drawdown	-0.033
-	Other Grant Funding	-
-0.514	Total income	-0.490
	Less the following spending:	
0.408	Universal Carers Support Service	0.443
0.026	Carers Support Worker Salary/Running Costs	0.027
0.048	CAMHS Carers Assessment Workers	0.048
0.482	Total spending	0.518
-0.032	**Overspending or underspending (-)**	**0.028**

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 2017/18 through a signed agreement under Section 75 of the National Health Service Act 2006. Somerset County Council received additional funding in 2017/18 through the improved Better Care Fund, which has been pooled as part of the Section 75 agreement.

Under this Section 75 agreement there are three funds totalling £51.682m 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 2017/18, by Fund:

Somerset Better Care Fund	**Fund 1 £millions**	**Fund 2 £millions**	**Fund 3 £millions**	**BCF Total**
Scheme A				
Reablement & Other social care schemes	5.347	12.279	9.084	26.710
Scheme B				
Person-centered care	18.216	-	-	18.216
Scheme C				
Improved DToC Arrangements	-	-	3.000	3.000
Scheme D				
Housing Adaptions	-	-	3.756	3.756
Total per Fund	23.563	12.279	15.840	51.682

Fund 1 is hosted by the Clinical Commissioning Group and totals £23.563m. The fund includes contributions from the CCG only, which have been paid to providers contracted to support the Reablement and Person-centred care. The 17/18 plan assumes payments made from the CCG to Somerset Partnership NHS Foundation Trust £11.907m Taunton & Somerset NHS Foundation Trust £6.496m and Yeovil District Hospital NHS Foundation Trust £5.160m.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 £12.279m. 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 £15.840m. The fund includes contributions from the County Council only, which have been paid to providers contracted to support the Housing Adaptions schemes, £3.756m, as well as a contribution to improve DToC arrangements, £3.000m, and the remaining improved Better Care Fund (iBCF), £9.084m. 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 17: Members' Allowances

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

2016/17 £millions		2017/18 £millions
0.586	Basic Allowance	0.594
0.221	Special Responsibility Allowance	0.229
0.051	Travel and Subsistence Expenses	0.059
0.012	Payments to Co-optees	0.012
0.870		**0.894**

Note 18: Senior Officers' Remuneration

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

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

Table 1 – Staff paid more than £50,000 (shown in £5,000 bands) for the financial year ended 31 March 2018

2016/17 Number of employees			2017/18 Number of employees	
Schools	**Non-schools**	**Employee pay bands**	**Schools**	**Non-schools**
78	39	£50,000 to £54,999	75	36
40	17	£55,000 to £59,999	46	10
24	13	£60,000 to £64,999	21	11
11	19	£65,000 to £69,999	16	15
6	12	£70,000 to £74,999	7	7
3	6	£75,000 to £79,999	2	4
1	1	£80,000 to £84,999	1	3
2	7	£85,000 to £89,999	1	5
3	-	£90,000 to £94,999	2	-
-	-	£95,000 to £99,999	1	-
-	7	£100,000 to £104,999	-	5
-	2	£105,000 to £109,999	-	2
-	1	£110,000 to £114,999	-	-
-	-	£115,000 to £119,999	1	2
-	1	£120,000 to £124,999	-	1
-	-	£125,000 to £129,999	-	-
-	1	£130,000 to £134,999	-	-
-	-	£135,000 to £139,999	-	1
-	-	£140,000 to £144,999	-	-
-	-	£145,000 to £149,999	-	-
-	1	£150,000 to £154,999	-	-
-	-	£155,000 to £159,999	-	1

Having met the criteria of the CIPFA guidance notes, the following tables set out the salaries and wages of the Authority's senior officers earned during 2016/17 and 2017/18.

In line with guidance, officers who earned £150,000 or more have been named.

Table 2 – 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 Director of Operations was only in post for part of the year. The post is no longer within the Authorities structure.

Table 3 – Actual salary and benefits paid for the financial year ended 31 March 2018

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 2017/18 £	Employer's pension contributions £	Total wages and benefits including pension contributions 2017/18 £
Head of paid service:						
Patrick Flaherty	156,100	-	-	156,100	24,200	180,300
Statutory chief officers or those who report directly to the head of paid service:						
- Director of Public Health	109,300	-	-	109,300	15,700	125,000
- Director of Finance and Performance	104,000	-	-	104,000	16,100	120,100
- Director of Commercial & Business Services	104,000	-	-	104,000	16,100	120,100
- Director of Adult Social Services	122,400			122,400	19,000	141,400
- Director of Children's Services	135,300	-	-	135,300	21,000	156,300
- Director of Economic & Community Infrastructure	104,000	-	-	104,000	16,100	120,100
- Director of Customers & Communities	88,400	-	-	88,400	13,700	102,100
Non-statutory chief officers who are directly accountable to the local authority themselves						
Group Manager Community Governance / Monitoring Officer	73,200	-	-	73,200	11,400	84,600
County Solicitor	79,400	-	-	79,400	12,300	91,700

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	
	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17 £millions	2017/18 £millions
£0 - £20,000	15	45	115	99	130	144	1.082	0.970
£20,001 - £40,000	2	-	31	20	33	20	0.946	0.546
£40,001 - £60,000	-	1	11	12	11	13	0.541	0.639
£60,001 - £80,000	-	-	9	7	9	7	0.623	0.492
£80,001 - £100,000	-	-	3	-	3	0	0.280	-
£100,001 - £150,000	-	-	2	3	2	3	0.234	0.356
£150,001 - £200,000	-	-	1	1	1	1	0.186	0.186
£200,001 - £250,000	-	-	-	1	-	1	-	0.242

Note 19: Termination Benefits

The Authority terminated the contracts of 189 employees in 2017/18, incurring liabilities of £3.431 million. This is analysed below between Local Authority staff and Teachers, and details any significant reasons for terminations.

Local Authority

The redundancy total includes; £2.643 million payable to 99 staff who took voluntary redundancy or early retirement. A further £0.209 million was paid to 44 staff that were given compulsory redundancy. Of this; 28 were due to restructures in support staff in schools and 16 were due to support service restructures with the local authority.

Teachers

Included in the above statement of £3.431 million, the Authority terminated the contracts of 46 teachers in 2017/18, incurring liabilities of £0.579 million. These terminations can be split between compulsory redundancies (2) and other termination reasons (44), and can be analysed as follows:

- Primary 21 Teachers
- Secondary 19 Teachers
- Special 6 Teacher

Note 20: Fees for External Audit Services

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

2016/17 £millions		2017/18 £millions
	Fees payable to auditors appointed under the Local Audit & Accountability Act 2014	
0.100	– Main audit	0.100
0.012	– Grant claims	0.008
-	– Rebate from Audit Commission for previous overcharge on audit fee	-0.015
0.112		**0.093**

Note 21: Dedicated Schools Grant

The Authority’s expenditure on schools is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). An element of DSG is recouped 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 2017/18 are shown in the following table:

	Central spending £millions	Individual Schools Budget £millions	Total £millions
Final Dedicated Schools Grant for 2017/18 - before Academy Recoupment	-49.742	-306.499	-356.241
Academy figure recouped for 2017/18	-	143.396	143.396
Total Dedicated Schools Grant after Academy recoupment for 2017/18	-49.742	-163.103	-212.845
Plus: Brought Forward from 2016/17	2.779	-	2.779
Less: Carry Forward to 2018/19 agreed in advance	-	-	-
Agreed initial budgeted distribution in 2017/18	-46.963	-163.103	-210.066
In year adjustments	-	-	-
Final budgeted distribution for 2017/18	**-46.963**	**-163.103**	**-210.066**
Less actual central expenditure	50.847	-	50.847
Less Actual ISB deployed to schools	-	163.103	163.103
Plus Local Authority contribution for 2017/18	-	-	-
Carry-forward to 2018/19	**3.884**	**-**	**3.884**

Note 22: Grant Income

The Authority credited the following grants, capital contributions and capital donations to the Comprehensive Income and Expenditure Statement in 2017/18:

2016/17 £millions		2017/18 £millions
	Credited to Taxation and Non Specific Grant Income	
-42.241	- Revenue Support Grant	-26.325
-	- Council Tax Freeze Grant	-2.510
-0.003	- Lead Local Flood Authority Grant	-0.067
-0.134	- Inshore Fisheries Grant	-0.134
-4.366	- New Homes Bonus	-3.769
-1.613	- Business Rates Cap	-1.917
-0.358	- Rights to Free Travel	-0.388
-4.346	- Building Schools for the Future	-4.305
-4.021	- Education Services Grant - Serv for LA	-1.027
-0.341	- Local Reform and Community Voices Gnt	-0.346
-2.388	- Rural Services Delivery Grant	-1.928
-1.090	- Transitional Grant	-1.085
-10.604	- Standards Fund Capital Grant	-6.878
-30.359	- Department for Transport Capital Grant	-29.266
-2.069	- LEP	-3.269
-	- Airband	-1.410
-	- Housing & Technology Grant	-1.184
-7.325	- West Monkton Primary School	-
-	- Lufton Kingfisher Primary School	-1.150
-7.874	- Other capital grants / Contributions (including developer S106 income)	-6.656
-119.132	**Total**	**-93.614**
	Credited to Services	
-212.850	- Dedicated Schools Grant	-212.845
-2.943	- Standards Fund	-9.032
-9.968	- Pupil Premium Grant	-9.484
-0.670	- Music Education Grant	-0.666
-0.348	- Special Educational Needs Reform Grant	-0.640
-0.550	- LEP - Start Up Fund	-0.687
-31.396	- LEP - Growth Hub	-23.894
-	- Adoption Support Grant	-0.253
-	- Controlling Migration Grant	-0.461
-3.932	- Sixth Form Funding (S6F)	-3.712
-1.535	- Primary PE and Sports Grant	-2.287
-0.458	- Youth Justice	-0.462
-1.179	- Troubled Families	-1.249
-0.753	- Step Up Social Work	-0.270
-	- School Improvement Grant	-0.357
-0.172	- Year 7 Catch Up preimium grant	-0.125
-4.620	- Universal Infants Free School Meals	-4.325
-	- Opportunity Areas	-0.700
-1.778	- Children and Young People services – other grants	-1.011
-1.314	- Independent Living Fund	-1.270
-21.808	- Public Health grant	-21.502
-	- Care Act *	-12.084
-0.064	- Adult services – other grants	-0.602
-0.315	- DEFRA - AONB & LARC	-0.294
-11.810	- Grant from Broadband Delivery UK	-2.136
-0.416	- Bus Service Operators Grant	-0.405
-2.493	- Building Schools for the Future contributions	-2.534
-0.174	- Economic, Communities & Infrstructure services - other grants	-0.005
-0.809	- Other services grants	-0.673
-312.354	**Total**	**-313.966**

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

Note 23: Partnerships and Related Party Transactions

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

Central Government

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

Officers

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

Members

Elected Members of the Authority have direct control over the Authority's financial and operating policies. The total of Members' allowances paid in 2017/18 is shown in Note 17. The Members' Code of Conduct requires Members to declare interests in related parties in the Register of Members' Interests. The Register is available on the Council's website and is open to public inspection at County Hall during office hours. Members were also asked to declare separately transactions with the Authority. No material transactions between the Authority and businesses in which members have a controlling interest have been identified.

A number of Members are also members of other local public bodies, including district, parish and town councils, academies and NHS trusts. No material transactions between the Authority and these organisations (in which members have a controlling interest) have been identified during 2017/18.

Other Related Parties

The Authority has significant influence over other parties due to the considerable proportion of business provided to them by the Authority. These being:

- Discovery, a social enterprise formed from a ground breaking partnership between Dimensions and Somerset County Council, together with customers, family carers and staff. In 2017/18 SCC paid £37.490m to Discovery.

- Various small local companies (12 in total) that provide transport on behalf of the Authority. The total paid to these companies during 2017/18 was £1.067 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 2017/18 the Authority paid £0.732 million to Futures for Somerset.

Note 24: Property, Plant and Equipment

Movements in 2017/18	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 2017	511.909	66.851	607.687	-	5.128	45.835	1,237.410
Additions	16.293	10.739	30.383	-	-	10.294	67.709
Disposals	-24.639	-6.517	-	-	-	-	-31.156
Reclassifications	12.282	0.235	24.488	-	1.163	-41.738	-3.570
Revaluation Increase/decrease (-):							
- to Revaluation Reserve	-7.228	-	-	-	-0.776	-	-8.004
- to Surplus/Deficit on the provision of service	-17.210	-	-	-	-0.367	-	-17.577
At 31 March 2018	491.407	71.308	662.558	-	5.148	14.391	1,244.812
Depreciation and impairments							
At 1 April 2017	-9.501	-49.984	-274.054	-	-0.275	-0.443	-334.258
Charge for 2017/18	-12.848	-5.771	-8.646	-	-0.054	-	-27.319
Disposals	0.387	6.501	-	-	-	-	6.888
Reclassifications	-0.184	-	-0.127	-	-0.093	0.442	0.038
Revaluations	19.230	-	-	-	0.177	-	19.407
At 31 March 2018	-2.916	-49.254	-282.827	-	-0.245	-0.001	-335.244
Balance sheet amount at 1 April 2017	**502.408**	**16.867**	**333.633**	**-**	**4.853**	**45.392**	**903.153**
Balance sheet amount at 31 March 2018	**488.491**	**22.054**	**379.731**	**-**	**4.903**	**14.390**	**909.569**
Nature of asset holding at 31 March 2018							
Owned	465.755	21.860	379.731	-	4.903	14.390	886.639
Finance lease	22.736	0.194	-	-	-	-	22.930
	488.491	**22.054**	**379.731**	**-**	**4.903**	**14.390**	**909.569**

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 2017/18.

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	-	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	-	-0.275	-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**	**-**	**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**

Capital Commitments

At 31 March 2018, the Authority anticipated investing £313.063m (£203.728m at 31 March 2017) in the construction or enhancement of Property, Plant, Equipment and Infrastructure during 2017/18 and future years. Some of this will be for schemes that have not yet started.

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

- £29.798m for the Superfast Broadband Programme
- £13.447m for Colley Lane Southern Access Road
- £8.589m for the Yeovil Western Corridor Capacity Upgrade
- £2.388m for the New Kingfisher Primary School in Yeovil
- £1.449m for the expansion and SEN works at Taunton Heathfield School

Similar commitments listed at 31 March 2017 were £49.072m.

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 £22 million and £26 million in 2018/19 (£24-£28 million in 2017/18). These payments will relate to new projects in 2018/19 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	-	22.054	379.731	-	14.390	**416.175**
Valued at fair value as at:						
31 March 2018	289.348	-	-	1.464	-	**290.812**
31 March 2017	61.386	-	-	3.257	-	**64.643**
31 March 2016	21.385	-	-	0.182	-	**21.567**
31 March 2015	96.867	-	-	-	-	**96.867**
31 March 2014	19.505	-	-	-	-	**19.505**
Total cost or valuation	**488.491**	**22.054**	**379.731**	**4.903**	**14.390**	**909.569**

Note 25: Intangible Non-Current Assets

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

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

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation charge of £1.181 million for 2017/18 was charged to the following service areas:

- £0.956 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 £0.225 million was charged to various services for use of specific IT systems.

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

2016/17 £millions		2017/18 £millions
	Balance at start of year:	
3.310	– Gross carrying amount	7.774
-1.937	– Accumulated amortisation	-2.211
1.373	**Net carrying amount at start of year**	**5.563**
	Movement in year:	
4.468	Purchases	0.008
-0.278	Amortisation for the period	-1.181
-	Retirement	-
5.563	**Net carrying amount at end of year**	**4.390**

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

	Carrying amount at 31 March 2017 £millions	Carrying amount at 31 March 2018 £millions	Remaining Amortisation Period at 31 March 2018
HCL SAP system (Integrated finance and payroll system)	3.816	2.931	3 years
SAP system licences	1.139	1.068	15 years

Note 26: Impairment Losses

During the valuation process for 2017/18, consideration was given to the Authorities entire asset portfolio. From this review the impairments to specific assets of £1.898m, 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 2017/18.

Note 27: Assets Held For Sale

The Authority's assets held for sale at 31/03/2018 and the movement in the year is reflected in the table shown below:

Current 2016/17 £millions		Current 2017/18 £millions
0.827	**Balance outstanding at start of year**	**0.211**
	Assets newly classified as held for sale:	
0.213	Property, plant and equipment	3.532
-0.119	Impairment losses	-1.898
	Assets declassified as held for sale:	
-0.385	Property, plant and equipment	-
-0.326	Assets sold	-0.136
0.211	**Balance outstanding at year end**	**1.709**

Note 28: Surplus Assets – Fair Value Measurement

Valuation Process for Surplus Properties

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

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

Fair Value Hierarchy

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

Fair value hierarchy of surplus assets for the year ending 31 March 2018:

	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 2018 £millions
Office/specific use properties	-	0.626	0.480	1.106
Commercial units	-	0.232	-	0.232
Land	-	0.005	3.560	3.565
	-	**0.863**	**4.040**	**4.903**

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**

Transfers between Levels of the Surplus Asset Fair Value Hierarchy

There was one asset whose valuation assumptions in 2017/18 led to a change in their overall observable input categorisation from that report in 2016/17.

This is explained as follows:

- Mount Street Day Centre - the unobservable estimation (category 3) input changed from the value of development land to the observable (category 2) input of an agreed sale price.

Reconciliation of Surplus Asset Fair Value Measurements within Level 3

2017/18	01 April 2017 £millions	Transfers into level 3 £millions	Transfers out of Level 3 £millions	Transfers in/out of Surplus £millions	Purchases £millions	Sales £millions	Unrealised gains/ (losses) £millions	Realised gains/losses £millions	31 March 2018 £millions
Surplus assets	4.071	-	-0.140	0.759	-	-	-0.555	-0.095	4.040

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 31/03/2018 £millions	Valuation technique used to measure fair value	Significant unobservable inputs	Range with (average used)	Sensitivity
Office/specific use properties	0.480	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	3.560	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 2017/18 is as follows:

- Depreciation of £0.054m has been charged to non distributed costs within the surplus or deficit on continuing operations.
- £0.367m of revaluation loss where there was no existing revaluation reserve. This went to the relevant service within the surplus or deficit on continuing operations.
- £0.600m 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 29: Leases

Authority as Lessee

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

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

	31 March 2017 £millions	31 March 2018 £millions
Other Land and Buildings	21.190	22.736
Vehicles, Plant and Equipment	0.435	0.194
	21.624	**22.930**

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 2017/18 (below) are the finance lease liability and finance costs for the BSF Bridgwater PFI scheme. Although the schools have been de-recognised from the Authority's accounts (due to control lying with the Bridgwater Education Trust) the lease rental payments are still payable and are therefore included within the total minimum lease payments. See note 30 for further details.

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

2016/17 £millions		2017/18 £millions
	Finance lease liabilities (net present value of minimum lease payments):	
1.024	- Current	0.835
43.721	- Non Current	42.886
60.015	Finance costs payable in future years	56.204
104.760	Minimum lease payments	**99.925**

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

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2017 £millions	**31 March 2018 £millions**	**31 March 2017 £millions**	**31 March 2018 £millions**
Not later than one year	5.321	5.085	1.024	0.835
Later than one year and not later than five years	20.239	20.335	3.847	4.218
Later than five years	79.200	74.505	39.874	38.668
	104.760	**99.925**	**44.745**	**43.721**

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 2017/18, £0.073m contingent rents were paid by the Authority (£0.048m in 2016/17).

The Authority has sub-let part of Taunton Museum (held under a finance lease) as an operating lease. At 31 March 2018, the minimum lease payments expected to be received under non-cancellable sub-leases was £0.134m (£0.137m in 2016/17).

Operating Leases

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

	31 March 2017		31 March 2018	
Operating Leases	**Land & Buildings £millions**	**Vehicles & Equipment £millions**	**Land & Buildings £millions**	**Vehicles & Equipment £millions**
Not later than one year	0.746	0.429	0.576	0.382
Later than one year and not later than five years	2.212	0.539	2.191	0.420
Later than five years	3.577	0.001	2.228	-
	6.535	**0.969**	**4.995**	**0.802**

The Authority has sub-let some of the assets acquired under operating leases. At 31 March 2018, the minimum lease payments expected to be received under non-cancellable sub-leases were £0.357m (£0.124m at 31 March 2017).

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

	31 March 2017 £millions	31 March 2018 £millions
Minimum Lease Payments	0.113	0.073
Less - Sub-lease payments receivable	-0.124	-0.040
	-0.011	**0.033**

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 83 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 98 years and also the Rural Life Barn museum to the Somerset Preservation Trust with a remaining term of 75 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 2017 £millions	31 March 2018 £millions
Finance lease debtor (net present value of minimum lease payments):		
- Current	0.029	0.030
- Non Current	16.401	16.371
Unearned Finance Income	55.156	54.312
Gross investment in the lease	**71.586**	**70.713**

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 2017 £millions	31 March 2018 £millions	31 March 2017 £millions	31 March 2018 £millions
Not later than one year	0.872	0.872	0.872	0.872
Later than one year and not later than five years	3.489	3.489	3.489	3.489
Later than five years	67.225	66.352	67.225	66.352
	71.586	**70.713**	**71.586**	**70.713**

During 2017/18, 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 2017/18. This will be reviewed again in 2018/19, 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 2017/18, £0.073m contingent rents were receivable by the Authority (£0.077m for 2016/17).

<u>Operating Leases</u>

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 2017 £millions	31 March 2018 £millions
Not later than one year	0.236	1.065
Later than one year and not later than five years	0.822	3.990
Later than five years	1.189	4.177
	2.247	**9.232**

Note 30: Private Finance Initiatives (PFI) and Similar Contracts

Building Schools for the Future (BSF)

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

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.

<u>Payments to be made under the BSF contract for liabilities held on the Balance Sheet</u>

	Repayments of Liability £m	Interest Charges £m	Service Charges £m	LifeCycle Replacement £m	Total Payments £m
Within 1 year	0.829	4.232	1.761	0.402	**7.224**
Within 2 - 5 years	4.193	16.052	7.045	1.608	**28.898**
Within 6 - 10 years	7.943	17.363	8.807	2.009	**36.122**
Within 11 - 15 years	12.562	12.743	8.806	2.009	**36.120**
Within 16 - 20 years	17.796	5.409	8.066	1.842	**33.113**
	43.323	**55.799**	**34.485**	**7.870**	**141.477**

Although the Authority is committed to making these payments the leisure centre and new schools will be under the control of the BET and therefore do not appear on the Authority’s balance sheet. This is also referred to in note 29 (Leases) on page 102.

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:

	2016/17 £millions	2017/18 £millions
Balance outstanding at start of year	44.769	44.079
Payments made during the year	-0.690	-0.756
Balance outstanding at year-end	**44.079**	**43.323**

The total estimated indexed payments under the contract amount to £178.486 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 31: Heritage Assets - Summary of Transactions

	2016/17 £millions	2017/18 £millions
Carrying Value - as at 1 April		
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
	1.934	**1.934**
Cost of acquisitions of heritage assets		
Art collections	-	-
Total cost of purchases	**-**	**-**
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 32: Heritage Assets – Further information on the Authority's Museum and Archive Collections

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

The Authority will remain the owner of collections and other heritage assets (reported in note 31) where that is presently the case, or the depositor body in the case of collections belonging to third parties.

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

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

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

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

The whole of the collection is publicly accessible:

- A proportion of the collection can be seen by visitors to our three museums, the Museum of Somerset, Taunton, the Somerset Rural Life Museum, Glastonbury, and the Somerset Brick and Tile Museum, Bridgwater. The Museum of Somerset is open from 10.00-17.00 Tuesday to Saturday and the Brick and Tile Museum from 10.00-16.00 Tuesday and Thursday. The Somerset Rural Life Museum reopened on Saturday 3 June 2017 following a major £2.4 million redevelopment. In addition, elements of the collection can be seen at other locations, for example, the Glastonbury Lake Village Museum, Glastonbury, Chard Museum and Watchet Boat Museum.
- The majority of the collection is in store at the Somerset Heritage Centre where material is available for viewing by prior appointment from 9.00 until 17.00 Monday to Friday. In addition, there are regular pre-booked public tours of the Heritage Centre which include the museum stores.

Heritage Assets of Particular Importance

Geology

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Numismatics
The 95,000 coins, medals and banknotes date from ancient Greek to the 20th century and many parts of the world are represented. The collection has developed through donations of single coins and collections (e.g. Norris in 1890, Tite early 20th century and Walter 1901), finds from archaeological excavations and by purchase. The focus has always been upon acquiring specimens made in, or for specific use in, the county and with a Somerset provenance e.g. material from excavations and hoards. Of particular significance are silver pennies from the county's Anglo-Saxon and Norman mints, 17th-19th century trade tokens, trade checks and medallions issued for use in the county and coin hoards, notably the Shapwick hoard which is the largest hoard of Roman silver denarii to have been found in Britain and the Frome hoard, the largest hoard of coins ever found in a single container in Britain.
The Authority has only reported in its Balance Sheet the numismatic artefacts where cost information (usually purchase price) is known. For the remainder of our numismatic collection, valuations are not available at a cost commensurate to users of the financial statements.

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

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

Note 33: Financial Instruments

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

31 March 2017 Non Current £millions	31 March 2017 Current £millions		31 March 2018 Non Current £millions	31 March 2018 Current £millions
		Investments		
15.129	180.592	Loans and receivables	-	174.336
-	-	Available-for-sale financial assets	9.734	-
15.129	**180.592**	**Total Investments**	**9.734**	**174.336**
		Debtors		
20.978	33.504	Loans and receivables	20.959	33.458
-	30.441	Debtors that are not financial instruments	1.579	25.016
20.978	**63.945**	**Total Debtors**	**22.538**	**58.474**
		Cash and cash equivalents		
-	28.465	Cash and cash equivalents	-	26.022
-	-	Overdraft	-	-1.973
-	**28.465**	**Total Cash and cash equivalents**	**-**	**24.049**
		Other Assets		
910.649	7.799	Other Assets that are not financial instruments	915.893	9.314
910.649	**7.799**	**Total Other Assets**	**915.893**	**9.314**
		Borrowings		
-336.030	-10.107	Financial liabilities at amortised cost	-335.684	-8.834
-336.030	**-10.107**	**Total Borrowings**	**-335.684**	**-8.834**
		Creditors		
-0.342	-76.770	Financial liabilities at amortised cost	-0.256	-67.028
-	-19.506	Creditors that are not financial instruments	-	-17.596
-0.342	**-96.276**	**Total Creditors**	**-0.256**	**-84.624**
		Other Liabilities		
-43.721	-1.024	PFI and finance leases carried at amortised cost	-42.885	-0.835
-882.101	-46.731	Other Liabilities that are not financial instruments	-826.319	-83.506
-925.822	**-47.755**	**Total Other Liabilities**	**-869.204**	**-84.341**

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 2017				31 March 2018		
Financial Liabilities - measured at amortised cost	Financial Assets - Available for sale	Financial Assets - Loans & Receivables		Financial Liabilities - measured at amortised cost	Financial Assets - Available for sale	Financial Assets - Loans & Receivables
£millions	£millions	£millions		£millions	£millions	£millions
19.304	-	-	Interest expense	19.308	-	-
19.304	**-**	**-**	**Total Expense in Surplus/Deficit on the Provision of Service**	**19.308**	**-**	**-**
-	-	-	Loss on revaluation	-	0.366	-
-	**-**	**-**	**Total Expense in Other Comprehensive Income & Expenditure**	**-**	**0.366**	**-**
-	-	-2.992	Interest Income	-	-	-2.561
-	**-**	**-2.992**	**Total Income in Surplus/Deficit on the Provision of Service**	**-**	**-**	**-2.561**
19.304	**-**	**-2.992**	**Net (Gain)/Loss for the Year**	**19.308**	**0.366**	**-2.561**

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 2018;
- The fair value of the Authority's PFI / lease deferred liability 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.

Financial assets classified as available for sale are carried in the Balance Sheet at fair value, based on the market price.

The fair values calculated are as follows:

31 March 2017 Carrying Amount	Fair value (Restated)		31 March 2018 Carrying Amount	Fair Value
£millions	£millions		£millions	£millions
		Finance asset measured at amortised cost		
28.465	28.465	- Cash and liquid deposits	24.049	24.049
54.482	65.817	- Debtors	54.417	60.816
195.721	195.721	- Investments	174.336	174.336
		Finance asset measured at published bid price		
-	-	- Available-for-sale financial asset	9.734	9.734
278.668	**290.003**	**Total Financial Assets**	**262.536**	**268.935**
		Financial liabilities at amortised cost		
-77.112	-77.112	Creditors	-67.284	-67.284
-9.665	-9.665	Short Term Borrowing	-8.383	-8.383
-160.272	-233.950	PWLB	-160.293	-224.663
-176.200	-290.888	Other long term loan	-175.842	-278.148
-44.745	-83.228	PFI/Finance Lease liability	-43.721	-78.683
-467.994	**-694.843**	**Total Financial Liabilities**	**-455.523**	**-657.161**

NB. The 31st March 2017 comparative fair values of our Other Long Term Loans have been restated to include the LOBO option premiums.

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 48) 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 2018) 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 2018) attributable to the commitment to receive interest below current market rates. However, this is not the case.

Financial assets classified as available for sale are carried at fair value. 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:

2016/17 £millions		2017/18 £millions
	Investments through the Comfund for:	
3.400	– South West Councils	3.000
3.100	– Exmoor National Park	2.900
0.365	– Police Community Trust	0.365
0.020	– Police and Crime Commissioners Treasurers' Society	0.035
0.225	– Society of County Treasurers	0.215
0.120	– Society of Local Council Clerks	0.100
0.200	– Falcon Housing Trust	0.350
1.750	– Richard Huish College	1.300
0.100	– South West Regional Improvement and Efficiency Partnership	-
0.080	– Wyvern Club	0.080
0.275	– King Alfred School	0.015
9.635		8.360
170.339	Our own short-term investments	165.162
179.974	Total temporary investments	173.522
0.618	Interest due on temporary investments	0.814
180.592	**Total short-term investments**	**174.336**
15.129	Our own long-term investments	-
-	CCLA Pooled Property Fund	9.734
15.129	**Total long-term investments**	**9.734**

Long-term debtors

2016/17 £millions		2017/18 £millions
	Loans to:	
0.360	Central Government (Academy loans)	0.280
0.117	Other authorities (mostly for housing)	0.097
4.085	Other organisations/individuals	4.196
0.015	Officers' car loans and leases	0.014
16.401	Leasing arrangements with Somerset Care Ltd	16.372
	Payment in advance:	
-	BSF Lifecycle costs	1.579
20.978		**22.538**

Short-term borrowing

2016/17 £millions		2017/18 £millions
-9.635	Other organisations investing in the Comfund	-8.360
-	Other temporary borrowing	-
-0.030	Interest payable on temporary borrowing	-0.023
-9.665		**-8.383**

Long-term borrowing

2016/17 £millions		2017/18 £millions
	Loans due to be repaid:	
-0.442	within one year	-0.451
-0.451	between one and two years	-0.461
-1.410	between two and five years	-1.437
-31.440	between five and 10 years	-36.251
-298.800	after more than 10 years	-293.501
-3.929	Interest due on long-term borrowing	-4.034
-336.472		**-336.135**

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

Note 34: Nature and Extent of Risks Arising from Financial Instruments

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

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

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

Credit and Counterparty Risk

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

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

The Somerset County Council Lending Counterparty Criteria is proposed and approved annually to incorporate any changes in financial institutions or developments in the wider political, economic, or legal environment. The criteria in force during 2017/18 can be found under the reports for the County Council meeting 15 February 2017, agenda item 7, Paper C. The Treasury Management Policy Statement is also available. These can be accessed via the hyperlink below.

http://democracy.somerset.gov.uk/documents/g208/Public%20reports%20pack%2015th-Feb-2017%2010.00%20County%20Council.pdf?T=10

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 (excluding CCLA investment), 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	8.310	0.011
	Local Authorities		
	AA	68.500	0.034
	UK banks		
	AA	12.000	0.006
	A	50.000	0.030
	BBB	1.580	0.002
	Overseas Banks		
	AA	55.000	0.028
		195.390	**0.111**
S&P	**Money-market funds**		
	AAA	8.310	-
	Local Authorities		
	AA	68.500	0.014
	UK banks		
	AA	12.000	0.002
	A	50.000	0.030
	BBB	1.580	0.003
	Overseas Banks		
	AA	35.000	0.007
	A	20.000	0.012
		195.390	**0.068**
Moody's	**Money-market funds**		
	AAA	8.310	-
	Local Authorities		
	Aa	68.500	0.014
	UK banks		
	Aa	42.000	0.008
	A	21.580	0.013
	Overseas Banks		
	Aa	55.000	0.011
		195.390	**0.046**
Investment and highest risk for 2017/18		**195.390**	**0.111**
Investment and highest risk for 2016/17		**217.860**	**0.124**

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 can be found in Note 33 – Long-term Borrowing.

Market Risk – Interest Rate Risk

The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates can have a complex impact on the authority. A rise in interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise;
- Borrowings at fixed rates – the fair value of the liabilities will fall;
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise; and
- Investments at fixed rates – the fair value of the investment will fall.

Investments classed at ‘loans and receivables’ and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on the Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be recognised through the Surplus and Deficit on the Provision of Services.

The Treasury Management Strategy aims to mitigate these risks by setting upper limits on the authorities’ exposure to fixed and variable interest rates.

If, at 31st March 2018, interest rates had been 1% higher with all other variables held constant there would have been an increase in interest receivable on investments of approximately £26,750.

Market Risk – Price 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 is exposed to the risk of falling commercial property prices on its CCLA pooled property fund. This risk is limited by the Authorities maximum exposure to pooled funds of £10m. A 5% fall in commercial property prices would result in a £0.500m charge to the Other Comprehensive Income & Expenditure section of the Comprehensive Income & Expenditure Statement – under current accounting regulations this would only impact on the General Fund when the investment was sold.

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 35: Inventories

	Consumable Stores 2016/17 £millions	Consumable Stores 2017/18 £millions	Musical Instruments 2016/17 £millions	Musical Instruments 2017/18 £millions	Book Stocks 2016/17 £millions	Book Stocks 2017/18 £millions	Total 2016/17 £millions	Total 2017/18 £millions
Balance outstanding at start of year	**0.287**	**0.247**	**0.854**	**0.860**	**6.207**	**6.481**	**7.348**	**7.588**
Purchases	0.494	0.509	0.007	0.004	0.925	0.512	**1.426**	**1.025**
Recognised as an expense in the year	-0.534	-0.506	-0.001	-0.001	-0.651	-0.501	**-1.186**	**-1.008**
Balance outstanding at year-end	**0.247**	**0.250**	**0.860**	**0.863**	**6.481**	**6.492**	**7.588**	**7.605**

Note 36: Short term debtors and payments in advance

2016/17 £millions		2017/18 £millions
	Money owed to us by:	
	Government Departments:	
7.480	- Central Government	10.148
23.899	- Local Government	17.840
4.041	- NHS	5.012
0.008	Officers (for car loans and leasing arrangements)	0.004
9.762	Other organisations/individuals	8.844
17.959	Payments made in advance - Other organisations	16.580
-	Payments in Advance - Central Government	0.007
0.796	Payments in Advance - Local Government	0.039
63.945		**58.474**

Note 37: Short term creditors

2016/17 £millions		2017/18 £millions
	Money we owe to:	
	Government Departments:	
-1.211	- Central Government	-0.901
-10.420	- Local Government	-11.190
-0.611	- NHS	-1.591
-0.015	- Public Corporations	0.000
-64.260	Other organisations	-53.221
-8.454	Employees (under IAS19)	-8.118
-3.372	Receipts in advance - Other organisations	-3.420
-0.315	Receipts in advance - Central Government	-0.141
-0.171	Receipts in advance - OLA	-0.161
-0.080	Receipts in advance - NHS	-0.114
-0.005	Receipts in advance - Public Corporations	-0.005
-88.914		**-78.862**

Note 38: Other long term liabilities

2016/17 £millions		2017/18 £millions
-43.721	Finance Lease Liability - due in more than 1 year	-42.885
-835.772	Pensions liability	-802.463
-879.493		**-845.348**

Note 39: Provisions

2016/17 £millions		2017/18 £millions
-5.532	Total insurance provision (excl. MMI) set aside on 1 April	-6.330
	Add:	
-5.028	- premiums received from services	-0.358
	Less:	
0.785	- insurance premiums paid	0.667
2.918	- net claims paid	0.472
0.527	- professional and administrative costs	0.616
-6.330	**Total insurance provision set aside on 31 March**	**-4.933**
	Non-Service	
-1.462	NDR Collection Fund - Provision for appeals	-1.187
	Highways	
-0.021	Abortive costs	-
	Children's Services	
-0.478	Care Leavers Grant	-0.406
-0.024	Youth Grants	-
	Other Services	
-0.071	Mount Travers House Delapidation	-0.071
-8.386	**Total Provisions due in less than 1 year**	**-6.597**
	Municipal Mutual Insurance (MMI) Provision	
-0.342	Relating to asbestos claims paid by MMI	-0.256
-0.342	**Total Provisions due in more than 1 year**	**-0.256**

Insurance provision

The Authority’s own Insurance Fund directly covers a wide range of insurance risks. However, there are a very limited range of risks which are not covered by insurance and the Authority charges any loss which arises directly to the service concerned. At the end of the year we have £5.189 million of claims not yet finally agreed (£6.672 million in 2016/17) 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 £3.765 million. As the Authority self-insures, we must put aside funds for any future claims as well as the current claims we must still pay.

Note 40: Revenue and Capital Grants/Contributions Receipt in Advance

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

Capital grants/contributions

2016/17 £millions		2017/18 £millions
	Capital Grant Receipts in Advance	
	Where the conditions are likely to be met within 1 year:	
-18.268	- Standards Fund (Schools Department for Education)	-15.408
-5.045	- Department for Transport	-8.614
-15.736	- Local Enterprise Partnership Capital Grant	-48.361
-0.920	- Other	-1.483
-39.969		**-73.866**
	Where the conditions are likely to be met in more than 1 year:	
-4.019	- Standards Fund (Schools Department for Education)	-4.048
0.000	- Department for Transport	-0.382
-26.796	- Local Enterprise Partnership Capital Grant	-1.498
-0.182	- Other	-0.697
-30.997		**-6.625**
	Capital Contribution Receipts in Advance (RIA)	
	Where the conditions are likely to be met within 1 year:	
-4.426	- Section 106 Contributions	-7.779
-0.585	- Other Contributions to our Capital Schemes	-0.052
-5.011		**-7.831**
	Where the conditions are likely to be met in more than 1 year:	
-9.218	- Section 106 Contributions	-8.759
-0.176	- Other Contributions to our Capital Schemes	-0.939
-9.394		**-9.698**
-44.980	Total Capital Grant/Contributions RIA's, where conditions are likely to be met within 1 year	-81.697
-40.391	Total Capital Grant/Contributions RIA's, where conditions are likely to be met in more than 1 year	-16.323
-85.371	**Total**	**-98.020**

Revenue grants

2016/17 £millions		2017/18 £millions
	Revenue Grant/Contributions Receipts in Advance	
	Where the conditions are likely to be met within 1 year:	
-0.179	- Central Government	-0.113
-0.256	- NHS	-
-	- Other Local Authorities	-
-1.316	- Other organisations	-1.696
-1.751		**-1.809**
	Where the conditions are likely to be met in more than 1 year:	
-5.938	- Other organisations	-7.533
-5.938		**-7.533**
-7.689		**-9.342**

Note 41: Usable Reserves

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

2016/17 £millions		2017/18 £millions
	General Fund - Revenue	
21.340	General Fund - Schools	19.146
20.157	General Fund - Other	20.929
8.135	Earmarked Reserves - set aside for revenue purposes	2.820
49.632		42.895
	Other Usable Capital Reserves	
3.405	Capital Receipts Reserve	3.701
3.190	Capital Grants Unapplied Reserve	4.957
4.820	Capital Contributions Unapplied Reserve	3.564
11.415		12.222
61.047	**Total Usable Reserves**	**55.117**

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 63).

Note 42: Unusable Reserves

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

2016/17 £millions		2017/18 £millions
191.769	Revaluation Reserve	191.312
381.514	Capital Adjustment Account	376.620
16.430	Deferred Capital Receipts Reserve	16.402
-835.772	Pensions Reserve	-802.463
4.691	Collection Fund Adjustment Account	2.891
-8.454	Accumulated Compensated Absences Adjustment Account	-8.118
0.000	Available-for-Sale Financial Instruments Adjustment Account	-0.366
-249.822	**Total Unusable Reserves**	**-223.722**

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.

2016/17 £millions		2017/18 £millions	2017/18 £millions
186.655	**Balance at 1 April**		**191.769**
23.480	Upward revaluation of assets	22.556	
-6.800	Revaluation/Impairment (losses) not charged to the Surplus/Deficit on the Provision of Services	-11.153	
16.680	Surplus/Deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services		**11.403**
-5.121	Difference between fair value depreciation and historical cost dep'n	-5.631	
-6.445	Accumulated gains on asset disposals	-6.229	
-11.566	Amount written off to the Capital Adjustment Account		**-11.860**
191.769	**Balance at 31 March**		**191.312**

Capital Adjustment Account

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

The Account also contains revaluation gains accumulated on property, plant and equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains. Note 9 provides details of the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2016/17 £millions			2017/18 £millions
359.120	**Balance at 1 April**		**381.514**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
-44.920	- Charges for depreciation and impairment of non current assets/assets held for sale	-29.217	
-5.285	- Revaluation losses on Property, Plant and Equipment	-17.577	
-0.278	- Amortisation of intangible assets	-1.181	
-	- Reversal/(Increase) of Icelandic impairment	0.048	
-58.381	- Revenue expenditure funded from capital under statute	-35.888	
-2.388	- Flexible use of capital receipts	-4.001	
-15.222	- 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	-24.404	
-126.474			-112.220
11.566	Adjusting amounts written out of the Revaluation Reserve		11.860
-114.908	Net written out amount of the cost of non current assets consumed in the year		-100.360
	Capital Financing applied in the year:		
18.770	- use of the Capital Receipts Reserve to finance new capital expenditure	3.365	
106.239	- Capital grants and contributions that have been applied to capital financing	84.309	
1.283	- Statutory provision for the financing of capital investment charged against the General Fund balance	1.482	
8.622	- Capital expenditure charged against the General Fund balance	2.309	
2.388	- Flexible use of capital receipts	4.001	
137.302			95.466
381.514	**Balance at 31 March**		**376.620**

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.

2016/17 £millions		2017/18 £millions
17.446	**Balance at 1 April**	**16.430**
-0.028	Amounts transferred to the Capital Receipts Reserve during the year	-0.028
	Other movements:	
-0.988	Cancellation of finance leases	-
16.430	**Balance at 31 March**	**16.402**

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.

2016/17 £millions		2017/18 £millions
-688.337	**Balance at 1 April**	**-835.772**
-118.163	Remeasurement gains / losses (-) on pension assets/liabilities	71.117
-62.883	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	-73.619
33.611	Employer's pensions contributions and direct payments to pensioners payable in the year	35.811
-835.772	**Balance at 31 March**	**-802.463**

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.

2016/17 £millions		2017/18 £millions
3.530	**Balance at 1 April**	**4.691**
-0.700	Amount by which Council Tax income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax income calculated for the year in accordance with statutory requirements	-1.489
1.861	Amount by which NDR income credited to the Comprehensive Income and Expenditure Statement is different from NDR income calculated for the year in accordance with statutory requirements	-0.311
4.691	**Balance at 31 March**	**2.891**

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.

2016/17 £millions		2017/18 £millions
-8.879	**Balance at 1 April**	**-8.454**
8.879	Settlement or cancellation of accrual made at the end of the preceding year	8.454
-8.454	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	-8.118
-8.454	**Balance at 31 March**	**-8.118**

Available-for-Sale Financial Instruments Adjustment Account

The Available for Sale Financial Instruments Reserve contains the gains made by the authority arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments.

2016/17 £millions		2017/18 £millions
-	**Balance at 1 April**	-
-	Revaluation gains/(losses) on available for sale financial asset	-0.366
-	**Balance at 31 March**	**-0.366**

Note 43: Cash and Cash Equivalents

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

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

2016/17 £millions		2017/18 £millions
5.605	Net Cash in hand	4.132
22.860	Short term Investment (initial maturity term less than 3 months)	21.890
28.465	**Cash and cash equivalents sub total**	**26.022**
-	Bank overdraft	-1.973
28.465	**Cash and cash equivalents at the end of the reporting period**	**24.049**

Note 44: Cash Flow Statement – Operating Activities

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

2016/17 £millions		2017/18 £millions
71.561	Net surplus(-)/deficit on the provision of services	**61.984**
-45.079	Depreciation and amortisation	-28.500
-5.404	Impairment and downward valuations	-19.474
-29.272	IAS 19 - Pension Liability	-37.807
-16.211	Carrying amount of non-current assets sold	-24.404
12.119	Movement in working capital	-0.311
-83.847		**-110.496**
108.054	Adjustment for items that are investing or financing activities	91.304
95.768		**42.792**

The cash flows for operating activities include the following items:

2016/17 £millions		2017/18 £millions
-3.057	Interest received	-2.394
19.344	Interest paid	19.210

Note 45: Cash Flow Statement – Investing Activities

2016/17 £millions		2017/18 £millions
63.561	Purchase of property, plant and equipment, investment property and intangible assets	76.465
145.000	Purchase of short term and long term investments	113.500
0.492	Other payments for investing activities	0.523
-3.222	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	-7.662
-183.052	Proceeds from short term and long term investments	-125.000
-112.840	Other receipts from investing activities	-98.943
-90.061	**Net cash flows from investing activities**	**-41.117**

Note 46: Cash Flow Statement – Financing Activities

2016/17 £millions		2017/18 £millions
-3.134	Cash receipts of short and long term borrowing	-
5.509	Repayments of short term and long term borrowing	1.717
0.950	Other payments for financing activities	1.024
3.325	**Net cash flows from financing activities**	**2.741**

Note 47: Capital Expenditure and Capital Financing

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

2016/17 £millions		2017/18 £millions
345.638	Opening Capital Financing Requirement	354.051
	Capital Investment:	
81.422	- Property, Plant and Equipment	67.709
4.468	- Intangible Assets	0.008
-	- Heritage Asset	-
-	- Current Assets Held for Sale	-
58.382	- Revenue Expenditure Funded from Capital Under Statute	35.888
-0.945	Reduction of long-term capital debtors	-0.029
0.000	Capitalised Icelandic Investment Impairment/(Reversal)	-0.048
2.388	Expenditure funded under the Capital Receipts Flexibility Directive	4.001
	Sources of Finance	
-18.770	- Capital receipts	-3.365
(2.388)	- Capital Receipts under the Flexibility Directive	-4.001
-106.239	- Government grants and contributions	-84.308
	- Sums set aside from revenue:	
-8.622	- Direct revenue contributions	-2.309
-1.283	- MRP/loans fund principal	-1.482
354.051	**Closing Capital Financing Requirement**	**366.114**

2016/17 £millions		2017/18 £millions
	Explanation of movements in year	
-0.091	Increase/Decrease (-) in underlying need to borrow (supported by government financial assistance)	-0.082
8.504	Increase/Decrease (-) in underlying need to borrow (unsupported by government financial assistance)	12.144
8.413	**Increase/Decrease (-) in Capital Financing Requirement**	**12.063**

Note 48: Contingent Liabilities

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

The Authority 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).

During the year, an Employment Tribunal ruled that support workers (who sleep-in as part of their shift) should be paid the hourly minimum wage for the entirety of their shift, including the time they are asleep. Prior to this ruling, these workers were paid a flat-rate for a sleep-in. The ruling is currently being appealed by the appellant (Mencap), but if the appeal is unsuccessful there is a potential liability of up to 6 years back-pay that the authority may have to pay to its service providers to compensate for the historic 'sleep-in' payments. As the legal situation is currently unclear, we have not recognised a provision in our accounts during 2017/18.

Note 49: 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 2018, 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:

2016/17 £millions		2017/18 £millions
-0.054	Total income	-0.054
0.077	Total spending	0.073
0.023	**(Surplus)/ Deficit**	**0.019**
0.584	Value of fund - brought forward	0.561
-0.023	Movement in year	-0.019
0.561	**Total value of the fund**	**0.542**

Note 50: Pension Schemes

Participation in Pension Schemes

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

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

- The Local Government Pension Scheme (LGPS), administered locally by the Authority, is a defined benefit statutory scheme where benefits accrued up to 31 March 2018 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:

2016/17 £millions	%		2017/18 £millions	%
12.708	16.48	Pension costs charged to the accounts	11.984	16.48
0.033	0.04	Discretionary payments made	-	0.00

National Employment Savings Trust

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

2016/17 £millions	%		2017/18 £millions	%
0.011	1.00	Pension costs charged to the accounts	0.008	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	
	2016/17 £millions	**2017/18 £millions**
Comprehensive Income and Expenditure Statement		
Net Cost of Services:		
- current service cost	38.984	50.751
- past service cost and gains/losses arising from settlements	-1.521	-0.520
Financing and Investment Income and Expenditure:		
- net interest expense	25.420	23.388
Total Post-employment Benefit Charged to the Surplus or Deficit on the Provision of Services	**62.883**	**73.619**
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)	-154.482	-19.945
- actuarial (gains) and losses arising on changes in demograpic assumptions	-33.353	0.000
- actuarial (gains) and losses arising on changes in financial assumptions	335.486	-51.172
- other actuarial (gains)/losses on plan assets	-31.287	0.000
- experience (gain)/loss on defined benefit obligation	1.799	0.000
	118.163	**-71.117**
Total Post-employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**181.046**	**2.502**
Movement in Reserves Statement		
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits in accordance with the Code	**-62.883**	**-73.619**
Actual amount charged against the General Fund Balance for pensions in the year:		
- employers' contributions payable to the scheme	**33.611**	**35.811**

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		
	2015/16 £millions	2016/17 £millions	2017/18 £millions
Present value of the defined benefit obligation:			
- Funded obligation	-1,371.544	-1,726.348	-1,738.552
- Unfunded obligation	-47.022	-48.997	-46.498
	-1,418.566	-1,775.345	-1,785.050
Fair value of plan assets	730.229	939.573	982.587
Net liability arising from defined benefit obligation	**-688.337**	**-835.772**	**-802.463**

The net liability shows the underlying commitments that the Authority has in the long run to pay retirement benefits. The total liability of £802.463 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 2018 has reduced by £33.309 million from 31 March 2017. 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:	2016/17 £millions	2017/18 £millions
Opening balance at 1 April	**730.229**	**939.573**
Interest income	26.366	25.731
Remeasurement gain/(loss):		
- return on plan assets (excluding the amount included in the net interest expense	154.482	19.945
Other actuarial gains/(losses)	31.287	0.000
Employer contributions - funded	30.524	32.682
Employer contributions - unfunded	3.087	3.129
Contributions by scheme participants	9.031	11.583
Benefits paid (including unfunded)	-44.183	-48.916
Other	-1.250	-1.140
Closing balance at 31 March	**939.573**	**982.587**

The actual rate of return identified in the table above for 2017/18 represents a gain of 2.123% of plan assets (as at 1st April 2017).

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

Fair Value of Scheme Assets	**2017/18 £millions**
Cash and cash equivalents	42.546
Equities:	
- Quoted	224.030
- Standard Life Smaller Companies Fund	4.913
Private Equity:	
- Private Equity	17.687
Overseas Equities:	
- North America	195.575
- Europe	110.494
- Japan	23.271
- Pacific (excluding Japan)	43.591
- Middle East	0.348
- Emerging market	1.946
- Nomura Japan Fund	32.234
- Pioneer Emerging Markets Fund	47.183
	701.272
Bonds:	
- UK Fixed Interest - Public Sector	0.000
- UK Fixed Interest - Corporate Sector	44.216
'- UK Fixed Interest - Corporate Sector High Yield	0.000
- UK Index Linked - Public Sector	0.000
- Overseas - Corporate Sector Investment Grade	48.147
- Overseas - Corporate Sector High Yield	0.000
- Overseas - index linked - public sector	0.983
	93.346
Gilts:	
- UK Fixed-Interest - Public Sector	19.652
- UK Index-Linked - Public Sector	32.425
	52.077
Property:	
- UK Property Funds	93.346
- Overseas Property Funds	0.000
	93.346
Total assets	**982.587**

Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation):	2016/17 £millions	2017/18 £millions
Opening balance at 1 April	**-1,418.566**	**-1,775.345**
Current service cost	-38.984	-50.750
Interest cost	-51.786	-49.119
Contributions by scheme participants	-9.031	-11.583
Past service costs, including curtailments	-1.161	-4.238
Settlements	3.932	5.898
Benefits paid (including unfunded)	44.183	48.916
Remeasurement gains and (losses):		
- actuarial gains/(losses) arising from changes in demographic assumptions	33.353	0.000
- actuarial gains/(losses) arising from changes in financial assumptions	-335.486	51.171
- experience gain/(loss) on defined benefit obligation	-1.799	0.000
Closing balance at 31 March	**-1,775.345**	**-1,785.050**

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 £32.973m contributions to the scheme in 2018/19.

The weighted average duration of the defined benefit obligation for scheme members is 20 years for 2017/18 (20 years in 2016/17).

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 2018, 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:

2016/17		2017/18
	Mortality Assumptions:	
	Longevity (in years) at 65 for current pensioners:	
23.9	- Men	24.0
25.0	- Women	25.2
	Longevity (in years) at 65 for future pensioners:	
26.1	- Men	26.2
27.4	- Women	27.8
2.7%	Rate of Inflation (CPI)	2.3%
4.2%	Rate of increase in salaries	3.8%
2.7%	Rate of increase in pensions	2.3%
2.8%	Rate of discounting scheme liabilities	2.6%

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	1,751,218	1,785,050	1,819,569
Projected service cost	47,151	48,345	49,571
Adjustment to long term salary increase	**+0.1%**	**0.0%**	**-0.1%**
Present value of total obligation	1,788,157	1,785,050	1,781,962
Projected service cost	48,345	48,345	48,345
Adjustment to pension increases and deferred revaluation	**+0.1%**	**0.0%**	**-0.1%**
Present value of total obligation	1,816,513	1,785,050	1,754,190
Projected service cost	49,573	48,345	47,147
Adjustment to mortality age rating assumption	**+1 Year**	**None**	**-1 Year**
Present value of total obligation	1,852,443	1,785,050	1,720,186
Projected service cost	49,887	48,345	46,851

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:

2016/17			2017/18	
£millions	%		**£millions**	%
0.156	14.30	Pension costs charged to the accounts	0.181	14.38
0.007	0.67	Discretionary payments made	-	0.00

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	60	68.394	-59.645
Community Secondary	7	26.135	-28.885
Community Special (includes PRUs)	10	21.788	-20.797
VC Primary	60	48.979	-48.650
VC Secondary	1	3.269	-3.181
VA Primary	33	29.155	-29.091
Foundation Trust Primary	3	2.852	-2.621
Foundation Trust Secondary	2	9.815	-3.860
Foundation Trust Special	2	3.068	-1.922

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 is part of the Local Government Pension Scheme (LGPS). The LGPS is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- the Local Government Pension Scheme Regulations 2013 (as amended);
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended); and
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

The fund receives contributions and investment income to meet pension benefits and other liabilities related to the majority 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 this valuation of the fund. The rates for the 2017-2018 financial year were the first year covered by the valuation of the fund as at 31 March 2016. For Somerset County Council, for example, the employer's contribution rate for the three years covered by this valuation is 15.5% for each of the years from 2017 to 2020 plus a fixed sum of £12.21m for 2017/2018, £12.51m for 2018/2019 and £12.81m for 2019/2020. This compares with a rate of 13.5% and a lump sum of £9.86m for the 2016/2017 year set under the 2013 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 22.9% at the 2016 valuation (20.4% at the 2013 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 22.9% is made up of a rate of 15.0% for new service and 7.9% for deficit funding. As part of the 2016 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 77% of the fund's liabilities.

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

Fund Account

2016/2017 £ millions	2016/2017 £ millions		2017/2018 £ millions	2017/2018 £ millions	Notes
		Contributions and other income			
20.892		Contributions from employees	20.720		1
69.123		Contributions from employers	78.667		1
2.851		Recoveries from member organisations	2.713		1
2.450		Transfer values received	5.312		2
95.316			**107.412**		
		Less benefits and other payments			
-68.168		Recurring pensions	-71.213		1
-13.429		Lump sum on retirement	-16.535		1
-1.568		Lump sum on death	-2.646		1
-3.423		Transfer values paid	-4.205		2
-0.401		Refund of contributions to leavers	-0.288		3
-86.989			**-94.887**		
	8.327	**Net additions from dealings with members**		**12.525**	
		Management Expenses			
-1.157		Administrative expenses	-1.113		4
-4.964		Investment management expenses	-5.706		5
-0.740		Oversight and governance expenses	-0.800		6
-6.861			**-7.619**		
	1.466	**Net additions including management expenses**		**4.906**	
		Investment income			
48.677		Investment income received	50.757		7
4.364		Investment income accrued	8.975		7
-0.884		Less irrecoverable tax	-1.217		
0.009		Other income (such as commission)	0.000		
52.166			**58.515**		
		Change in market value of investments			
55.640		Realised profit or loss	48.913		10
262.909		Unrealised profit or loss	-23.594		10
318.549			**25.319**		
	370.715	**Net return on investments**		**83.834**	
	379.042	**Net increase in the net assets available for benefits during the year**		**96.359**	
		Change in actuarial present value of promised retirement benefits			
-773.469		Vested benefits	-58.239		11
-29.076		Non-vested benefits	16.602		11
	-802.545	**Net change in present value of promised benefits**		**-41.637**	
	-423.503	**Net increase/(decrease) in the fund during the year**		**54.722**	
	-1,334.106	Add net liabilities at beginning of year		-1,757.609	
	-1,757.609	**Net liabilities at end of year**		**-1,702.887**	

Net Asset Statement

On 31 March 2017 £ millions		On 31 March 2018 £ millions	Notes
	Investment assets and liabilities		
1,966.614	Investment assets	2,046.769	8
-0.142	Investment liabilities	-0.043	8
0.048	Other investment balances	7.656	12
	Current assets		
4.803	Contributions due from employers	5.588	
0.009	Cash at bank	0.246	
1.023	Other debtors	1.079	
	Current liabilities		
0.000	Unpaid benefits	0.000	
0.000	Bank overdraft	0.000	
-2.156	Other creditors	-2.356	
1,970.199	**Net assets of the scheme available to fund benefits at end of year**	**2,058.939**	
	Actuarial present value of promised retirement benefits		
-3,581.638	Vested benefits	-3,639.877	11
-153.031	Non-vested benefits	-136.429	11
-1,764.470	**Net liabilities at end of year**	**-1,717.367**	

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 2017/18, 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 and financial assets are included at fair 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 of the respective pooled investment vehicle;

- 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, Neuberger Berman Crossroads XXI fundand Neuberger Berman Crossroads XXII fund are valued using data supplied by the funds quarterly;

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

- the fund's holding in the shares of Brunel Pension Partnership Ltd 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

2017/2018	Somerset County Council £ millions	Other scheduled employers £ millions	Admitted employers £ millions	Total £ millions
Employees' contributions				
- Normal	7.314	10.812	2.246	**20.372**
- Additional	0.155	0.184	0.009	**0.348**
Total	7.469	10.996	2.255	**20.720**
Employers' contributions				
- Normal	18.098	24.853	5.991	**48.942**
- Augmentation	1.585	0.680	0.186	**2.451**
- Deficit funding	12.215	12.814	2.245	**27.274**
Total	31.898	38.347	8.422	**78.667**
Recurring pension and lump sum payments	-44.960	-37.518	-7.916	**-90.394**
Money recovered from member organisations	1.534	1.165	0.014	**2.713**
	-4.059	**12.990**	**2.775**	**11.706**

2016/2017	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	7.469	31.898	39.367
Police & Crime Commissioner			
Avon & Somerset	4.655	12.417	17.072
District councils			
Mendip	0.255	1.427	1.682
Sedgemoor	0.587	2.877	3.464
South Somerset	0.720	3.203	3.923
Taunton Deane	0.968	4.138	5.106
West Somerset	0.000	0.504	0.504
Parish and town councils			
Axbridge Town Council	0.001	0.004	0.005
Berrow Parish Council	0.001	0.003	0.004
Burnham & Highbridge Town Council	0.005	0.016	0.021
Burnham & Highbridge Burial Board	0.006	0.020	0.026
Castle Cary Town Council	0.003	0.008	0.011
Chard Town Council	0.015	0.047	0.062
Cheddar Parish Council	0.002	0.006	0.008
Coleford Parish Council	0.000	0.001	0.001
Creech St Michael Parish Council	0.001	0.002	0.003
Crewkerne Town Council & Burial Board	0.009	0.032	0.041
Frome Town Council	0.031	0.097	0.128
Glastonbury Town Council	0.011	0.037	0.048
Ilminster Town Council	0.005	0.019	0.024
Langport Town Council	0.002	0.007	0.009
Lower Brue Drainage Board	0.038	0.117	0.155
Minehead Town Council	0.004	0.012	0.016
Nether Stowey Parish Council	0.001	0.005	0.006
Parret Drainage Board	0.005	0.017	0.022
Shepton Mallet Town Council	0.002	0.008	0.010
Somerton Town Council	0.005	0.018	0.023
Street Parish Council	0.005	0.015	0.020
Watchet Town Council	0.001	0.006	0.007
Wellington Town Council	0.001	0.003	0.004
Wells Burial Board & Parish Council	0.025	0.045	0.070
Williton Parish Council	0.001	0.006	0.007
Wincanton Town Council	0.003	0.011	0.014
Yeovil Town Council	0.012	0.038	0.050
Other bodies			
Avon and Somerset Magistrates Courts	0.000	1.123	1.123
Exmoor National Park	0.123	0.414	0.537
Further-education colleges			
Bridgwater College	0.740	2.274	3.014
Richard Huish Sixth Form College	0.133	0.371	0.504
Strode College	0.159	0.491	0.650
Yeovil College	0.176	0.538	0.714

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Note 1: Contributions and benefits (continued)

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
Academies			
Ansford Academy	0.029	0.100	0.129
Ashill Primary Academy	0.000	0.001	0.001
Avishayes Academy	0.019	0.073	0.092
Axbridge Academy	0.012	0.043	0.055
Bath & Wells Academy Trust	0.211	0.740	0.951
Bishop Fox’s Academy	0.056	0.194	0.250
Bridgwater College Academy	0.113	0.323	0.436
Brookside Academy	0.057	0.208	0.265
Bruton Sexey’s School	0.054	0.179	0.233
Brymore Academy	0.059	0.201	0.260
Buckland St. Mary Church of England School	0.003	0.012	0.015
Buckler’s Mead Academy	0.048	0.169	0.217
Buckler’s Mead Leisure	0.001	0.002	0.003
Castle Academy	0.065	0.226	0.291
Castle Primary School	0.009	0.033	0.042
Chilton Trinity Academy	0.042	0.108	0.150
Courtfields Academy	0.043	0.152	0.195
Crispin Academy	0.046	0.157	0.203
Danesfield Academy	0.024	0.083	0.107
East Brent School	0.004	0.017	0.021
Enmore Academy	0.006	0.021	0.027
Hambridge Primary School	0.012	0.046	0.058
Hamp Academy	0.019	0.076	0.095
Hayesdown Academy	0.014	0.051	0.065
Haygrove Academy	0.058	0.204	0.262
Holy Trinity Church of England School	0.015	0.056	0.071
Holyrood Academy	0.065	0.226	0.291
Horrington Primary School	0.007	0.025	0.032
Hugh Sexey's School	0.027	0.100	0.127
Huish Academy	0.029	0.107	0.136
Huish Episcopi Academy	0.074	0.253	0.327
Huish Episcopi Primary Academy	0.009	0.031	0.040
King Edward Road Nursery	0.010	0.036	0.046
King Ina (Monteclefe)	0.018	0.068	0.086
Kings of Wessex Academy	0.053	0.173	0.226
Kings of Wessex Leisure	0.014	0.037	0.051
Kingsmead Academy	0.051	0.180	0.231
Lympsham School	0.015	0.034	0.049
Maiden Beech Academy	0.026	0.091	0.117
Manor Court Primary School	0.025	0.094	0.119
Mark Academy	0.011	0.042	0.053

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Note 1: Contributions and benefits (continued)

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
Academies (continued)			
Mendip School	0.018	0.068	0.086
Middlezoy Primary School	0.005	0.016	0.021
Minehead First School	0.022	0.081	0.103
Minehead Middle School	0.041	0.141	0.182
Minerva Primary School	0.009	0.036	0.045
North Town Academy	0.030	0.109	0.139
Northgate Primary School	0.003	0.009	0.012
Nunney First School	0.004	0.014	0.018
Oakfield Academy	0.037	0.133	0.170
Old Cleeve Academy	0.010	0.036	0.046
Othery Primary School	0.003	0.013	0.016
Pen Mill Academy	0.019	0.067	0.086
Preston Academy	0.043	0.174	0.217
Preston C of E Primary School	0.027	0.095	0.122
Priorswood Academy	0.014	0.053	0.067
Puriton Primary School	0.005	0.019	0.024
Redstart Academy	0.026	0.093	0.119
Selwood Academy	0.031	0.115	0.146
St. Dunstan’s Academy	0.020	0.067	0.087
St. Cuthbert's Academy	0.011	0.041	0.052
St. Michael's Academy	0.024	0.089	0.113
St. Michael's Church of England School	0.010	0.038	0.048
St. Peter's Academy	0.010	0.038	0.048
Stanchester Academy	0.034	0.121	0.155
Steiner Academy, Frome	0.021	0.074	0.095
Tatworth Academy	0.007	0.025	0.032
Taunton Academy	0.025	0.122	0.147
The Blue School, Wells	0.094	0.304	0.398
Weare Academy	0.012	0.040	0.052
Wedmore Academy	0.020	0.064	0.084
Wellesley Park Primary School	0.017	0.066	0.083
West Somerset Community College	0.040	0.142	0.182
Westfield Academy	0.057	0.192	0.249
Westover Green Academy	0.023	0.084	0.107
Whitstone Academy	0.028	0.104	0.132
Willowdown Academy	0.019	0.069	0.088
Woolavington Academy	0.013	0.046	0.059
Total other scheduled employers	10.996	38.347	49.343

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Note 1: Contributions and benefits (continued)

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
Admitted bodies			
Aster Communities Ltd	0.039	0.340	0.379
BAM FM	0.006	0.028	0.034
Care Focus Somerset Ltd	0.001	0.001	0.002
Churchill Contract Services	0.014	0.058	0.072
Dimensions	0.993	3.095	4.088
Edward and Ward Ltd	0.011	0.039	0.050
Glen Cleaning Company Ltd	0.001	0.002	0.003
Greenwich Leisure	0.074	0.144	0.218
Homes in Sedgemoor	0.097	0.284	0.381
ICM	0.006	0.028	0.034
Learning South West	0.000	0.482	0.482
Leisure East Devon	0.011	0.021	0.032
Magna West Somerset Housing Association	0.060	0.222	0.282
Mama Bear's	0.002	0.005	0.007
May Gurney Ltd	0.021	0.246	0.267
MD Building Services	0.029	0.086	0.115
MITIE	0.004	0.017	0.021
National Autistic Society	0.009	0.064	0.073
NSL Ltd	0.022	0.048	0.070
1610 Ltd	0.025	0.050	0.075
SASP	0.012	0.017	0.029
Society of Local Council Clerks	0.030	0.092	0.122
Somerset Care Ltd	0.040	0.367	0.407
Somerset Skills & Learning	0.094	0.347	0.441
South West Audit Partnership	0.131	0.421	0.552
South West Heritage	0.068	0.197	0.265
South West Provincial Councils	0.031	0.284	0.315
Taylor Shaw Ltd	0.003	0.014	0.017
Wyvern Nursery Ltd	0.014	0.033	0.047
Yarlington Housing Group	0.407	1.390	1.797
Total admitted employers	2.255	8.422	10.677
Total	**20.720**	**78.667**	**99.387**

Note 2: Transfer values

2016/2017 £ millions		2017/2018 £ millions
0.000	Group transfer values received	0.000
2.451	Individual transfer values received	5.312
2.451		**5.312**
0.000	Group transfer values paid	0.000
-3.423	Individual transfer values paid	-4.205
-3.423		**-4.205**

Note 3: Refunds

2016/2017 £ millions		2017/2018 £ millions
-0.278	Contributions refunded to members who leave service	-0.240
-0.004	Interest accumulated on refunds agreed in the past	-0.005
-0.282		**-0.245**
-0.147	Deductions from contributions equivalent premium	-0.053
0.028	Less payments to Department for Work and Pensions contributions equivalent premium	0.010
-0.401		**-0.288**

Note 4: Administrative expenses

2016/2017 £ millions		2017/2018 £ millions
-0.082	Benefits administration costs charged by Somerset CC	0.000
-1.048	Benefits administration costs charged by Devon CC	-1.106
-1.130		**-1.106**
0.000	Legal advice costs charged by Somerset CC	0.000
-0.027	External legal advice	-0.007
-0.027		**-0.007**
0.000	Other expenses	0.000
-1.157		**-1.113**

Note 5: Investment management expenses

2016/2017 £ millions		2017/2018 £ millions
	Fund manager fees	
-0.292	Aviva	-0.311
-0.821	Jupiter*	-0.962
-0.326	Maple-Brown Abbott*	-0.218
-0.211	Pioneer	-0.288
-0.041	Somerset County Council	-0.040
-1.317	Standard Life*	-1.458
-0.664	Other fund managers	-0.721
-3.672		**-3.998**
	Other expenses	
-0.971	Transaction costs	-1.022
-0.049	Custody fees	-0.058
-0.272	Property unit trust managers' fees	-0.628
-1.292		**-1.708**
-4.964		**-5.706**

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 2017/2018 financial year are £483,000 (£557,000 in 2016/2017).

The transaction costs shown above are broken down as follows:

2016/2017 £ millions Broker comm-issions	2016/2017 £ millions Taxes and Fees	Manager	Asset Class	2017/2018 £ millions Broker comm-issions	2017/2018 £ millions Taxes and Fees
		Purchase Costs			
0.012	0.022	Somerset County Council	Passive global equity	0.011	0.015
0.143	0.539	Standard Life	UK equity	0.111	0.598
0.004	0.000	Somerset County Council	Passive US equity	0.002	0.000
0.017	0.019	Jupiter	European equity	0.014	0.075
0.000	0.000	Nomura	Japanese equity	0.000	0.000
0.015	0.002	Maple-Brown Abbott	Far East equity	0.022	0.003
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
0.191	0.582			0.160	0.691
		Sales Costs			
0.012	0.008	Somerset County Council	Passive global equity	0.011	0.008
0.129	0.001	Standard Life	UK equity	0.113	0.000
0.006	0.001	Somerset County Council	Passive US equity	0.003	0.000
0.019	0.000	Jupiter	European equity	0.012	0.000
0.000	0.000	Nomura	Japanese equity	0.000	0.000
0.013	0.008	Maple-Brown Abbott	Far East equity	0.015	0.009
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
0.179	0.018			0.154	0.017
0.370	**0.600**			**0.314**	**0.708**
	0.970				**1.022**

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

2016/2017 £ millions		2017/2018 £ millions
-0.010	Committee services costs charged by Somerset CC	-0.010
-0.267	Investments administration costs charged by Somerset CC	-0.239
-0.277		**-0.249**
-0.143	Actuary's fees	-0.101
0.045	Recharge of Actuary's fees to employers	0.054
-0.098		**-0.047**
-0.024	External audit fees	-0.024
0.000	Fee rebate	0.004
-0.024		**-0.020**
0.000	Internal audit costs charged by South West Audit Partnership	0.000
-0.069	Professional services and subscriptions	-0.073
-0.145	IT systems	-0.155
0.000	Performance measurement fees	0.000
0.000	External legal advice	-0.005
-0.023	Voting advice fees	-0.024
-0.077	Pooling costs	-0.217
-0.027	Other expenses	-0.010
-0.740		**-0.800**

Note 7: Investment income

2016/2017 £ millions		2017/2018 £ millions
9.993	Bonds	9.676
0.510	Index linked bonds	0.501
14.940	UK equities	20.358
15.237	Overseas equities	18.341
11.415	Property unit trusts	10.120
0.347	Cash invested internally	0.381
0.000	Private equity	0.000
0.599	Stock lending	0.355
53.041		**59.732**

Note 8: Investment Assets & Liabilities

31 March 2017 £ millions	31 March 2017 £ millions	%	%		31 March 2018 £ millions	31 March 2018 £ millions	%	%
				UK equities				
482.143		24.5		Quoted	470.890		23.0	
9.146		0.5		Standard Life smaller companies fund	10.094		0.5	
	491.289		**25.0**			**480.984**		**23.5**
				Overseas equities				
403.661		20.5		North America	396.173		19.3	
198.076		10.1		Europe	228.258		11.1	
44.267		2.2		Japan	46.870		2.3	
87.823		4.5		Pacific (not including Japan)	87.974		4.3	
1.037		0.0		Middle East	0.665		0.0	
4.491		0.2		Emerging market	3.746		0.2	
60.583		3.1		Nomura Japan fund	65.426		3.2	
81.896		4.2		Amundi emerging markets fund	95.913		4.7	
	881.834		**44.8**			**925.025**		**45.1**
				Bonds				
43.624		2.2		UK fixed-interest - public sector	42.893		2.1	
79.797		4.1		- corporate sector investment grade	83.099		4.1	
9.385		0.5		- corporate sector high yield	10.428		0.5	
0.000		0.0		Overseas - public sector	0.000		0.0	
73.077		3.7		- corporate sector investment grade	74.688		3.6	
28.160		1.4		- corporate sector high yield	25.959		1.3	
70.202		3.6		UK index-linked - public sector	70.923		3.5	
1.733		0.1		Overseas index-linked - public sector	1.313		0.1	
	305.978		**15.6**			**309.303**		**15.2**
				Property				
175.991		8.9		UK property funds	197.874		9.7	
2.012		0.1		Overseas property funds	0.316		0.0	
	178.003		**9.0**			**198.190**		**9.7**
				Private equity				
14.040		0.7		Neuberger Berman Crossroads 2010 fund	13.709		0.7	
9.672		0.5		Neuberger Berman Crossroads XX fund	11.634		0.6	
4.974		0.3		Neuberger Berman Crossroads XXI fund	11.516		0.6	
0.000		0.0		Neuberger Berman Crossroads XXII fund	2.765		0.1	
1.840		0.1		South West regional venture fund	1.640		0.1	
0.000		0.0		Brunel	0.840		0.0	
	30.526		**1.6**			**42.104**		**2.1**
				Derivatives				
0.147		0.0		Forward foreign-exchange contracts	0.382		0.0	
0.000		0.0		Government bond futures	0.000		0.0	
	0.147		**0.0**			**0.382**		**0.0**
				Cash and others				
78.837		4.0		Cash invested internally	90.781		4.4	
	78.837		**4.0**			**90.781**		**4.4**
	1,966.614		**100.0**	**Investment assets**		**2,046.769**		**100.0**

Table continued on next page

Note 8: Investment Assets & Liabilities (continued)

31 March 2017 £ millions	£ millions	%	%		31 March 2018 £ millions	£ millions	%	%
				Derivatives				
-0.142		0.0		Forward foreign-exchange contracts	-0.043		0.0	
0.000		0.0		Government bond futures	0.000		0.0	
	-0.142		**0.0**			**-0.043**		**0.0**
	-0.142		**0.0**	**Investment liabilities**		**-0.043**		**0.0**
	1,966.472		**100.0**	**Net investment assets**		**2,046.726**		**100.0**
				Made up of				
	1,410.910			Historical cost		1,514.758		
	555.562			Unrealised profit or loss		531.968		
	1,966.472					**2,046.726**		

During the year Amundi Asset Management purchased Pioneer Investments, the name of our investment in the emerging market fund has therefore changed.

In response to the requirements of the investment regulations for LGPS funds to pool investment assets, Brunel Pension Partnership Ltd (BPP Ltd) has been formed to oversee the investment assets for the Avon, Buckinghamshire, Cornwall, Devon, Dorset, Environment Agency, Gloucestershire, Oxfordshire, Somerset, and Wiltshire LGPS funds. Each of the ten funds own an equal share of Brunel Ltd, with share capital invested by each fund of £840,000. The £840,000 investment shown as Brunel above refers to this value of the shares the fund holds in Brunel Pension Partnership Ltd. (BPP Ltd.). As disclosed in the accounting policies section of these accounts this investment is valued at cost. This value is not the value of assets managed by BPP Ltd, which as at 31 March 2018 was £0. This investment is also disclosed separately from any other investment in note 10, note 13 and note 25 and a written disclosure is made in note 19 with regard to related parties.

Note 9: Analysis of Pooled Investments

31 March 2017 £ millions		31 March 2018 £ millions
	Unit trusts	
118.325	UK property funds	133.265
	Unitised insurance policies	
9.146	Standard Life smaller companies fund	10.094
8.849	UK property funds	9.895
17.995		**19.989**
	Limited liability partnerships	
5.779	UK property funds	5.330
1.475	Overseas property funds	0.063
14.040	Neuberger Berman Crossroads 2010 fund	13.709
9.672	Neuberger Berman Crossroads XX fund	11.634
4.974	Neuberger Berman Crossroads XXI fund	11.516
0.000	Neuberger Berman Crossroads XXII fund	2.765
1.840	South West regional venture fund	1.640
37.780		**46.657**
	Other managed funds	
60.583	Nomura Japan fund	65.426
81.896	Amundi emerging markets fund	95.913
43.038	UK property funds	49.384
0.537	Overseas property funds	0.253
186.054		**210.976**
360.154	**Total**	**410.887**

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
2016/2017	Total	1,592.223	32.508	1,028.411	-1,005.219	55.640	262.909	1,966.472
Somerset County Council	Global equity	493.761	0.000	38.614	-34.919	2.786	-11.684	488.558
Standard Life	UK equity	459.104	0.000	151.754	-133.899	18.196	-40.255	454.900
Somerset County Council	US equity	100.924	0.000	11.435	-11.984	2.397	-2.541	100.231
Jupiter	European equity	116.744	0.000	43.427	-25.658	-7.052	13.492	140.953
Nomura	Japanese equity	60.583	0.000	0.000	0.000	0.000	4.843	65.426
Maple-Brown Abbott	Far East equity	60.111	0.000	10.605	-8.651	2.943	-4.980	60.028
Amundi	Emerging Market equity	81.896	0.000	5.000	0.000	0.000	9.017	95.913
Standard Life	Bonds	305.978	0.000	100.699	-90.323	4.646	-11.697	309.303
Standard Life	Derivatives	-0.061	0.000	655.906	-655.841	0.034	0.297	0.335
Aviva	Property	178.003	0.000	17.613	-6.025	-9.112	17.711	198.190
Aviva	Currency	0.066	0.000	14.120	-14.120	0.000	-0.062	0.004
Neuberger Berman	Global private equity	28.686	0.000	11.071	-2.644	0.444	2.067	39.624
TVP	UK venture capital	1.840	0.000	0.000	-0.200	0.000	0.000	1.640
Brunel	Private equity	0.000	0.000	0.840	0.000	0.000	0.000	0.840
Somerset County Council	Cash	78.837	-21.885	0.000	0.000	33.631	0.198	90.781
2017/2018	**Total**	**1,966.472**	**-21.885**	**1,061.084**	**-984.264**	**48.913**	**-23.594**	**2,046.726**

The £840,000 investment shown as Brunel above refers to the value of the shares the fund holds in Brunel Pension Partnership Ltd. (BPP Ltd.). As disclosed in the accounting policies section of these accounts this investment is valued at cost. This value is not the value of assets managed by BPP Ltd, which as at 31 March 2018 was £0. This investment is also disclosed separately from any other investment in note 8, note 13 and note 25 and a written disclosure is made in note 19 with regard to related parties.

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 2018, 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 2017		31 March 2018
	Financial assumptions	
3.6%	RPI increases	3.3%
2.7%	CPI increases	2.3%
4.2%	Salary increases	3.8%
2.7%	Pension increases	2.3%
2.8%	Discount Rate	2.6%
	Life expectancy (from age 65)	
23.9	Retiring today - Males	24.0
25.0	- Females	25.2
26.1	Retiring in 20 years - Males	26.2
27.4	- Females	27.5

The Retail Prices Index (RPI) increase assumption is set using a Single Equivalent Inflation Rate (SEIR) approach. The single inflation rate derived is that which gives the same net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve, as applying the BoE implied inflation curve. The Merrill Lynch AA rated corporate bond yield spot curve is assumed to be flat beyond the 30-year point and the BoE implied inflation spot curve is assumed to be flat beyond the 40-year point. The approach has changed from the "spot rate" approach adopted at the previous accounting date to reflect national auditor preferences.

CPI is assumed to be 1.0% below RPI. This is a reasonable estimate for the future differences in the indices, based on the different calculation methods. This is a slightly higher deduction than at the last accounting date where we assumed that CPI was 0.9% lower than RPI.

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 is consistent with the approach used at the last accounting date.

An estimate of the Fund's future cashflows is made using notional cashflows based on the estimated duration of 21 years. These estimated cashflows are then used to derive a Single Equivalent Discount Rate (SEDR). The discount rate derived is such that the net present value of the notional cashflows, discounted at this single rate, equates to the net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve (where the spot curve is assumed to be flat beyond the 30-year point). The approach has changed from the "spot rate" approach adopted at the previous accounting date to reflect national auditor preferences.

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

2016/2017 £ millions		2017/2018 £ millions
90.939	Current service cost	118.555
107.406	Interest cost	103.742
739.679	Change in financial assumptions	-117.912
-54.798	Change in demographic assumptions	0.000
-21.677	Experience loss/(gain) on defined benefit obligations	0.000
0.000	Liabilities assumed/(extinguished) on settlements	0.000
-81.419	Estimated benefits paid net of transfers in	-88.083
1.594	Past service costs, inculding curtailments	6.289
20.821	Contributions by scheme members	19.046
802.545		**41.637**

Note 12: Other investment balances

31 March 2017 £ millions		31 March 2018 £ millions
	Assets	
4.363	- Accrued income	8.906
2.750	- Payments due on investments sold	1.290
7.113		**10.196**
	Liabilities	
-7.065	- Payments not made on purchases and losses due on sales	-2.077
0.000	- Cash collateral held	-0.463
-7.065		**-2.540**
0.048		**7.656**

Note 13: Management structure

31 March 2017 £ millions	%	Manager	Asset class	31 March 2018 £ millions	%
493.761	25	Somerset County Council	Passive global equity	488.558	24
459.104	23	Standard Life	UK equity	454.900	22
100.924	5	Somerset County Council	Passive US equity	100.231	5
116.744	6	Jupiter	European equity	140.953	7
60.583	3	Nomura	Japanese equity	65.426	3
60.111	3	Maple-Brown Abbott	Far East equity	60.028	3
81.896	4	Amundi	Emerging market equity	95.913	5
305.917	16	Standard Life	Bonds	309.638	15
178.069	9	Aviva	Property	198.194	10
28.686	2	Neuberger Berman	Global private equity	39.624	2
1.840	0	Technology Venture Partners	UK venture capital	1.640	0
0.000	0	Brunel	UK venture capital	0.840	0
78.837	4	Somerset County Council	Cash	90.781	4
1,966.472	**100**	**Net investment assets**		**2,046.726**	**100**

The £840,000 investment shown as Brunel above refers to the value of the shares the fund holds in Brunel Pension Partnership Ltd. (BPP Ltd.). As disclosed in the accounting policies section of these accounts this investment is valued at cost. This value is not the value of assets managed by BPP Ltd, which as at 31 March 2018 was £0. This investment is also disclosed separately from any other investment in note 8, note 10 and note 25 and a written disclosure is made in note 19 with regard to related parties.

Note 14: Major holdings

31 March 2017 Rank	£ millions	Stock	Description	31 March 2018 Rank	£ millions
1	81.896	Amundi Emerging Market Equity Fund	Pooled fund of emerging market equities	1	95.913
2	60.583	Nomura Japan Fund	Pooled fund of Japanese equities	2	65.426
3	26.222	HSBC	UK bank	3	27.085
6	19.678	Royal Dutch Shell	UK oil company	4	24.287
20	12.351	British American Tabacco	UK tobacco company	5	23.094
8	19.022	Schroders UK PUT	UK property unit trust	6	22.409
9	18.207	CBRE UK Property Fund	UK property unit trust	7	21.251
10	17.146	IPIF	UK property unit trust	8	20.781
7	19.139	BP	UK oil company	9	20.778
16	14.022	THRE UK Property Fund	UK property unit trust	10	19.536
13	15.112	Prudential	UK life insurance company	11	19.440
12	15.755	Blackrock UK PUT	UK property unit trust	12	18.516
11	16.668	Vodafone	UK mobile phone company	13	18.390
53	6.310	Shire	UK pharmaceutical company	14	17.743
17	13.461	Rio Tinto	UK mining company	15	14.839
14	14.219	Apple	US consumer electronics company	16	14.320
22	11.113	Anglo American	UK mining company	17	14.221
15	14.040	Neuberger Berman Crossroads 2010 fund	Private equity fund	18	13.709
19	12.406	RELX	UK publishing company	19	12.551
47	7.260	THRE Central London Office Fund	UK property unit trust	20	12.490

None of the holdings of the fund makes up more than 5% of the net investment assets. The largest holding (Amundi Emerging Market Equity Fund) makes up 4.7% 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 2017 £ millions				31 March 2018 £ millions		
Asset	Liability	Net value		Asset	Liability	Net value
			Forward foreign-exchange contracts			
0.080	-0.141	-0.061	Standard Life fixed Interest	0.378	-0.043	0.335
0.066	0.000	0.066	Aviva	0.004	0.000	0.004
0.146	**-0.141**	**0.005**		**0.382**	**-0.043**	**0.339**
			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**
0.146	**-0.141**	**0.005**		**0.382**	**-0.043**	**0.339**

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 2017 £ millions Asset exposure value	Liability exposure value	Net value		31 March 2018 £ millions Asset exposure value	Liability exposure value	Net value
			Forward foreign-exchange contracts			
45.353	-45.414	-0.061	Standard Life fixed Interest	36.234	-35.899	0.335
2.320	-2.254	0.066	Aviva	0.275	-0.271	0.004
47.673	**-47.668**	**0.005**		**36.509**	**-36.170**	**0.339**
			Government bond futures			
1.013	-1.013	0.000	UK gilt future	1.598	-1.598	0.000
0.566	-0.566	0.000	European bond future	0.000	0.000	0.000
3.253	-3.253	0.000	Australian bond future	0.766	-0.766	0.000
0.000	0.000	0.000	Canadian bond future	0.000	0.000	0.000
3.854	-3.854	0.000	US treasury future	2.288	-2.288	0.000
8.686	**-8.686**	**0.000**		**4.652**	**-4.652**	**0.000**
56.359	**-56.354**	**0.005**		**41.161**	**-40.822**	**0.339**

Note 16: Stock Lending

31 March 2017 £ millions		31 March 2018 £ millions
105.520	Value of stock on loan	134.491
116.918	Value of collateral held against loaned stock	147.336

31 March 2017 %		31 March 2018 %
	Form of collateral provided	
7.7	UK Government debt	12.0
7.9	US Government debt	5.5
11.3	Euro area Governments debt	17.8
0.0	US$ denominated corporate debt	0.0
0.0	€ denominated corporate debt	0.0
8.5	UK equities	6.5
64.6	Overseas equities	58.2
0.0	Other	0.0
100.0		**100.0**

Note 17: Membership Statistics

As at 31 March	2012	2013	2014	2015	2016	2017	2018
Active scheme members	**19,505**	**19,446**	**21,057**	**22,020**	**22,649**	**21,550**	**21,151**
Pensioners							
Current (in payment)	12,301	12,636	12,460	13,871	14,779	15,421	16,322
Deferred (future liability)	14,509	15,823	17,006	17,280	20,452	22,268	25,119
Undecided leavers	2,307	3,135	3,147	3,754	2,507	3,778	2,617
Total (active plus pensioners)	**48,622**	**51,040**	**53,670**	**56,925**	**60,387**	**63,017**	**65,209**
Active members for each current pensioner	1.59	1.54	1.69	1.59	1.53	1.40	1.30

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 2017 £ millions		31 March 2018 £ millions
	Value of additional voluntary contributions	
4.549	Prudential	4.518
0.292	Equitable Life	0.252
4.841		**4.770**

2016/2017 £ millions		2017/2018 £ millions
	Additional voluntary contributions paid during the year	
0.387	Prudential	0.353
0.000	Equitable Life	0.000
0.387		**0.353**

Note 19: Related Parties

Committee members Gordon Bryant and Mark Simmonds were active members of the scheme during the year and Committee member Sarah Payne was a deferred member of the scheme during the year. Committee member Richard Parrish's wife is a member of the scheme.

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

Pension Board members Paul Deal and Nigel Behan were active members of the 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, Amundi Asset Management 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.

<u>Brunel Pension Partnership Ltd (Company number 10429110)</u>

Brunel Pensions Partnership Ltd (BPP Ltd) was formed on the 14th October 2016 and will oversee the investment of pension fund assets for Avon, Buckinghamshire. Cornwall, Devon, Dorset, Environment Agency, Gloucestershire, Oxfordshire, Somerset, and Wiltshire Funds.

Each of the 10 local authorities, including Somerset County Council own 10% of BPP Ltd.

The fund did not pay BPP Ltd fees for services in the 2017-2018 financial year and any such fees will be disclosed in note 5. The fund paid for fees in the 2018-2019 financial year before the end of the current year and as such £157,000 is within the other debtors amount of £1,079,000 shown on the Net Asset Statement.

During the year the fund paid £840,000 for its shares in BPP Ltd. These accounts show this investment valued at cost and is disclosed separately from any other investment in note 8, note 10, note 13 and note 25.

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 2018 of an officer who undertake work for the fund is greater than £50,000. The pay of this officer 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 this officer undertakes for the pension fund.

Year to 31 March 2018 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	104,000.00	-	-	104,000.00	16,100.00	120,100.00

For comparison purposes the equivalent disclosure for the financial year ended 31 March 2017 is shown in the table below.

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

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 2018.

Note 23: Post balance sheet events

There were no post balance sheet events as at 26 July 2018.

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 2018 being £2,047m.

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 13 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 British pounds. 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 15 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 2018 by the amounts shown below.

Asset class	Value of Assets £ millions	Volatility	Increase in Assets £ millions	Decrease in Assets £ millions
UK equities	480.984	17.90%	86.096	-86.096
Overseas equities	925.025	15.30%	141.529	-141.529
UK bonds	136.420	7.70%	10.504	-10.504
Overseas bonds	101.960	13.20%	13.459	-13.459
UK index-linked bonds	70.923	7.20%	5.106	-5.106
Property	198.190	6.20%	12.288	-12.288
Cash	90.781	0.00%	0.000	0.000
Others	42.443	7.50%	3.183	-3.183
Net investment assets	**2,046.726**		**272.165**	**-272.165**

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 £91.0m 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 16 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 its 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 15 of these accounts. During the year the exposure on some forward foreign exchange contracts moved to having collateral provided against this exposure. As at 31 March 2018 we held £463,000 of cash collateral and this is included within the investment balances in note 8. As it is collateral we have a liability to pay this some back unless the counterparty fails, as a result we have declared an equal liability in other investment balances in note 12.

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 15 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 basis for the valuation of each class of investment asset is set out below.

Description of Asset	Fair Value Hierarchy	Basis of Valuation	Observable and unobservable inputs	Key sensitivities affecting the valuation provided
Market quoted equities and bonds	Level 1	Published closing bid prices ruling at year end	Not required	Not required
Pooled equity funds	Level 1	Published single price ruling at year end	Not required	Not required
Exchange traded futures and forward foreign exchange contracts	Level 1	Published exchange prices at the year end	Not required	Not required
Pooled property funds	Level 2	Closing bid price where bid and offer prices are available Closing single price where single price available	NAV-based pricing set on a forward pricing basis	Not required
Private equity limited liability partnerships	Level 3	Valued using a number of different market and income valuation methods as well as comparable market transaction prices	Market transactions, market outlook, cash flow projections, last financings and multiple projections	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts
Unquoted equity	Level 3	Brunel share capital is valued at book cost	Earnings and revenue multiples, discount for lack of marketability, control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

The table below analyses the fund's investment assets at 31 March 2018 into the 3 levels of the fair value hierarchy.

Asset Class	Level 1 £ millions	Level 2 £ millions	Level 3 £ millions	Total £ millions
UK equities	480.984			480.984
Overseas equities	925.025			925.025
Bonds	309.303			309.303
Property funds		198.190		198.190
Private Equity funds			42.104	42.104
Forward foreign-exchange contracts	0.339			0.339
Government bond futures	0.000			0.000
Cash	90.781			90.781
Net investment assets	**1,806.432**	**198.190**	**42.104**	**2,046.726**

For comparison purposes the equivalent disclosure for the financial year ended 31 March 2017 is shown in the table below.

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**

There have been no transfers of assets between levels within the fair value hierarchy during the financial year ended 31 March 2018.

The following table shows a reconciliation of the movement in level 3 investments during the financial year ended 31 March 2018.

Asset class	Fair Value as at 31 March 2017 £ 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 2018 £ millions
Global private equity	28.686	0.000	0.000	11.071	-2.644	0.444	2.067	39.624
UK venture capital	1.840	0.000	0.000	0.000	-0.200	0.000	0.000	1.640
Brunel	0.000	0.000	0.000	0.840	0.000	0.000	0.000	0.840
Total	**30.526**	**0.000**	**0.000**	**11.911**	**-2.844**	**0.444**	**2.067**	**42.104**

The £840,000 investment shown as Brunel above refers to the value of the shares the fund holds in Brunel Pension Partnership Ltd. (BPP Ltd.). As disclosed in the accounting policies section of these accounts this investment is valued at cost. This value is not the value of assets managed by BPP Ltd, which as at 31 March 2018 was £0. This investment is also disclosed separately from any other investment in note 8, note 10 and note 15 and a written disclosure is made in note 19 with regard to related parties.

Note 26: Disclosures

Under IFRS the fund must disclose what consideration it has given to accounting standards that have not been adopted. For the 2017-18 accounts there are no current standards that the authority has yet to adopt.

Interim Director of Finance
26 July 2018

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

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.

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.

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.

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.

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.

Lãngüagê Liñè

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