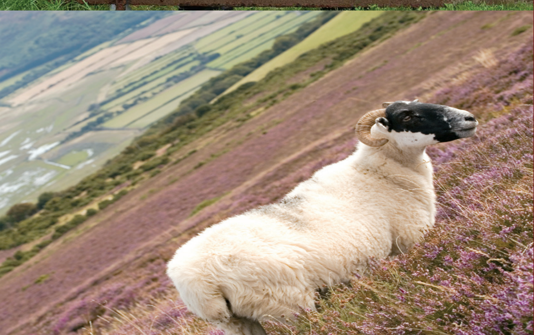
Somerset County Council

Statement of Accounts 2018/19

Accounts for Approval



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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

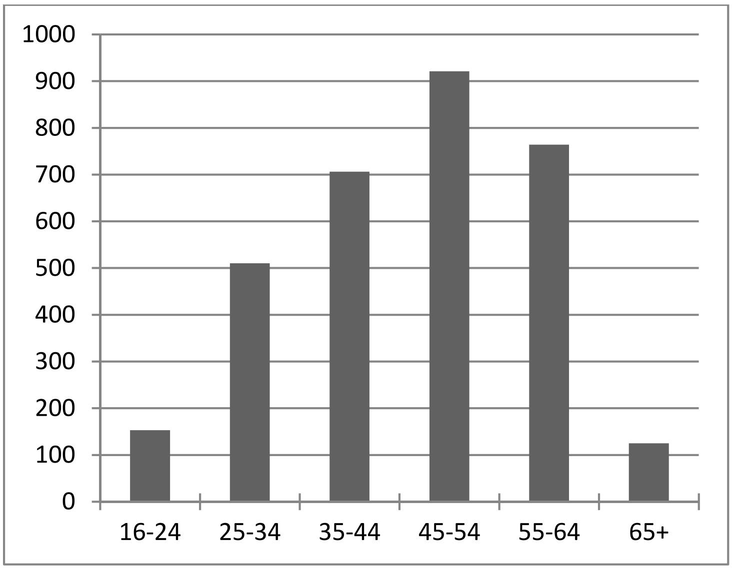
Somerset Context

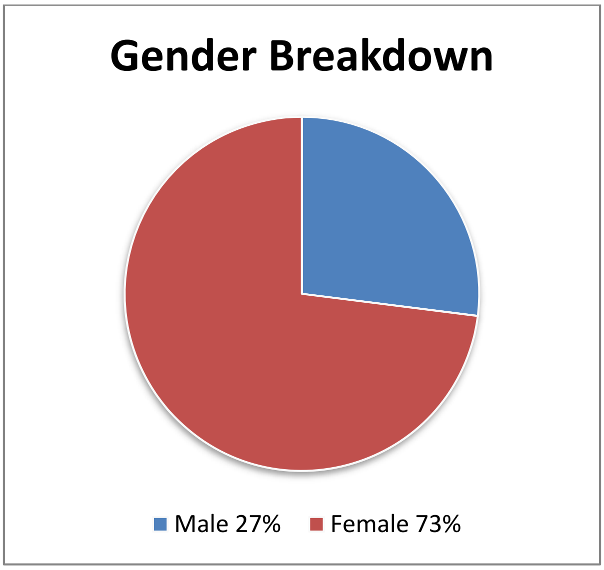
Somerset is a beautiful county with many assets including a strong and significant heritage and vast areas of countryside and moors. Somerset's population is classified as around 52% urban and 48% rural, making it one of the ten most rural counties in England. One third of people live in one of the county's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

The population of Somerset is approximately 555,000 with an age profile that is weighted slightly towards people of older age; around 1 in 4 of the residents of the county are over the age of 65. Somerset's employment rate remains higher than the national level (79.6% compared to 75.1%) with 82.2% of Somerset's residents aged 16-64 being classified as economically active. This is higher than the national average of 78.5% although average annual earnings in Somerset consistently lag behind the UK level.

People Context

Somerset County Council employed 3,179 people in full and part time contracts on 31st March 2019. Employees are a valued significant resource within the authority and employee's costs account for 31% of the total gross expenditure. The authority's workforce profile can be seen in the charts below.

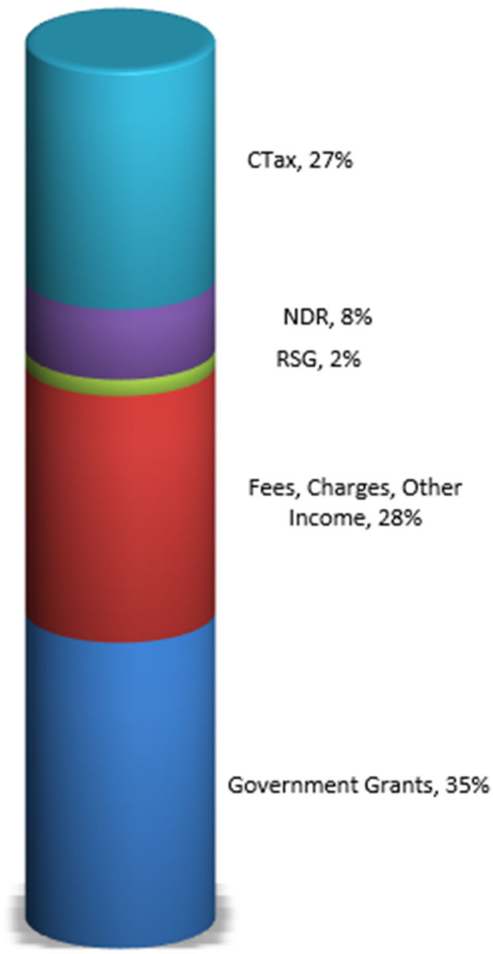




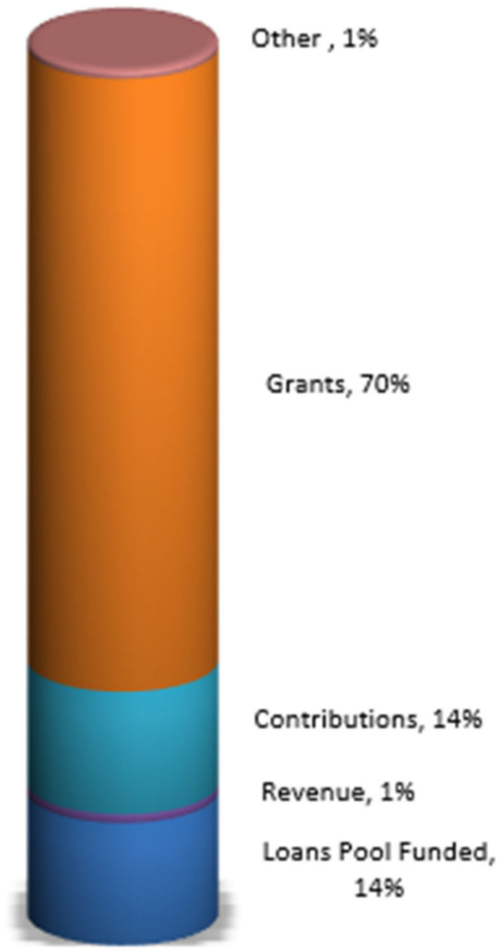
Financial Context
Nationally, 2018/19 was a relatively stable year for the Local Government sector with no significant changes in funding mechanisms or responsibilities. The main focus therefore remained on mitigating the continued austerity measures which have reduced the Authority's core Revenue Support Grant by nearly 39% since 2017/18. In February 2018, we agreed our Capital Investment Programme for 2018/19 of £91.973m and set our revenue budget for 2018/19 at £316.882m which resulted in a band-D council tax of £1,192.16, amended to £317.882m in February 2019 due to a correction in the reporting of an element of the Collection Fund surplus. There was no impact on the council tax.

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 27% of our revenue funding needs.

Revenue



Capital



Developments for the year

Financial Imperative Programme
At the start of the 2018/19 financial year the Council recognised that urgent action was required to manage its financial situation differently to ensure it remained within its resources in 2018/19; with low financial resilience due to significantly reduced reserves and a significant overspend forecast early in the year action was required immediately. This was also noted by the external

auditor with a qualified Value for Money (VFM) opinion which detailed poor resilience and ineffective/unclear financial reporting and the feedback from the Corporate Peer Challenge Review detailing the challenges that the Council faced.
Several specific actions were identified to drive the improvement journey including:

- Addressing the funding gap in Children's Services and allocating some corporate contingency to help mitigate the scale of the budget gap;
- Additional savings proposals identified and approved in September 2018;
- A Financial Imperative programme established to control, track and monitor current year financial performance and delivery of savings;
- Weekly Senior Leadership meetings focussing on the Financial Imperative work;
- Increased reporting through Cabinet and Scrutiny meetings on a monthly basis and additional reporting to Audit Committee of management actions and progress in addressing the auditors adverse VFM opinion;
- A conscious decision to increase reserves where the opportunity allowed;
- A robust approach to budget planning for 2019/20 onwards to ensure the budget assumptions were realistic and deliverable

As a result of the in-year action the Councils final revenue budget outturn position is an underspend of £5.909m against a net budget of £317.882m (-1.86%) with reserves partially replenished, as can be seen in the value of usable reserves in the Balance Sheet (page 83).

Flexible use of Capital Receipts directive
In March 2016 the Department for Communities and Local Government (DCLG) 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 reviewed its transformational activity spend together with associated business cases, via a specific review panel. The outcome enabled the Authority to make use of this directive during 2018/19 and used £8.600m of capital receipts to fund qualifying expenditure, as detailed in the following table:

Service		Value of Costs £m	Description
Adult Services	Learning Disabilities	3.638	Contractual transformation costs
Children and Families - Operations	Adoption	0.050	Moving Adoption services to an agency arrangement
	Getset	0.047	Supporting the Family Support Service model
Children and Learning - Commissioning	Getset	0.066	Supporting the Family Support Service model
ECI Services	Property	0.206	Costs associated with property rationalisation and transforming the use of assets
	Economic Development	0.087	Supporting the roll-out of Broadband, underpinning how services can be delivered to the public
	Commissioning	0.025	Commissioning development and working towards integrated commissioning solutions
	Libraries	0.277	Costs associated with the activity supporting the Library transformation
Key Services		**4.396**	
Corporate and Support Services	Core Council Programme	1.756	Costs within the Core Council Programme team who support transformational projects across the Council
	ICT and related costs	1.000	Costs associated with supporting the digital transformational changes across the Council
	Customers and Communities	0.154	Costs supporting the transformation of the customer "front door" service delivery
Non-Service Items	Central Redundancies	1.294	Redundancy costs as a result of restructures supporting service transformation
Support Services and Corporate		**4.204**	
SCC Total		**8.600**	

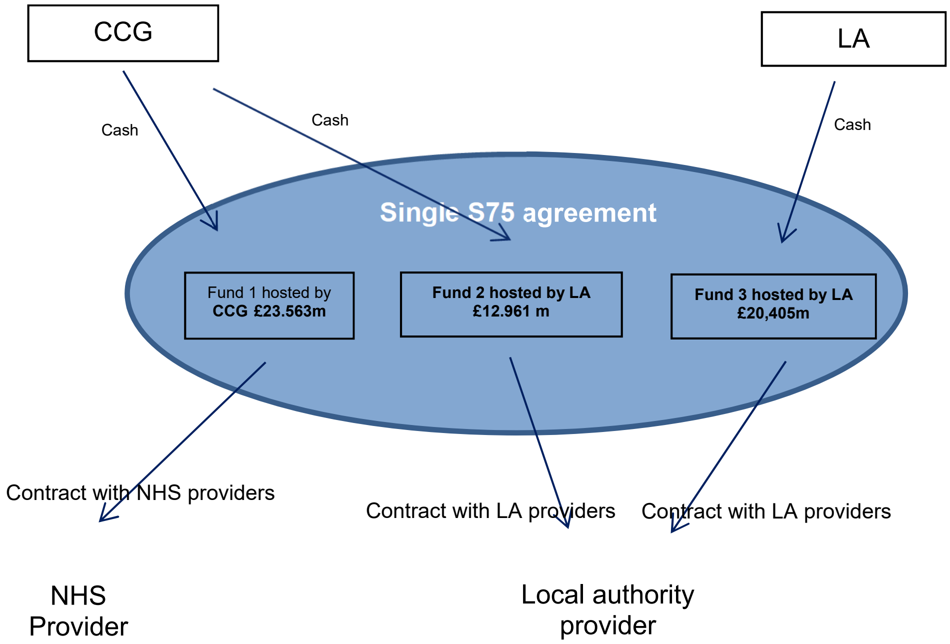
Dedicated Schools Grant (DSG) Deficits

3 years ago the Department for Education (DfE) confirmed that the funding for schools and education (dedicated schools grant) was ring-fenced and cumulative balances of this grant must also be ring-fenced. Over this period significant pressures have been felt in this area of the council and as a result a cumulative deficit (or negative) position has been built up in these ringfenced earmarked reserves. Due to the pressures felt nationally the DfE confirmed that at the end of the financial year 2018/19 any Local Authority with a DSG deficit of 1% or more of the total DSG received must submit a recovery plan to them. For Somerset County Council this deficit at the end of 2018/19 was £6.702m which equates to 1.72% of the DSG received. The Council is working with Somerset Schools Forum to develop a robust plan which will be submitted back to the DfE by 30 June 2019. This deficit reserve is included within the usable reserves in the balance sheet and is disclosed separately in Note 11, page 104.

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 (CCG) and Somerset County Council establish a pooled fund for this purpose, which has been achieved in 2018/19 through a signed agreement under Section 75 of the National Health Service Act 2006. Somerset County Council received additional funding in 2018/19 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 £56.929m 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. 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 107.

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 economic development projects that benefit local areas and economies. The total grant award is £197m with £146m having already been received to date (£9.9m in 2018/19) with the remainder scheduled to be received by 2020/21. These monies are continuing to be spent as the projects approved by the LEP progress. MHCLG 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 at www.heartofswlep.co.uk.

Schools converting to Academy status

Somerset schools have continued to opt to transfer to Academy status, during the year thirteen schools transferred. Five schools have academy orders agreed and will transfer early in 2019/20. 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

The SCC County Vision was approved by Full Council in 2018 and the Business Plan was also developed and approved in 2018. The activities in the Business Plan informed a refresh of the Corporate Performance Report for 2018/19 and the metrics included.

The Planning and Performance team continued 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. Supporting this the Planning and Performance team and Senior Leadership Team have further developed the director level

Scorecards using a more centralised format and ensuring that the information included is in line with the County Vision, Service Plans and therefore embeds a consistent quality across all areas.

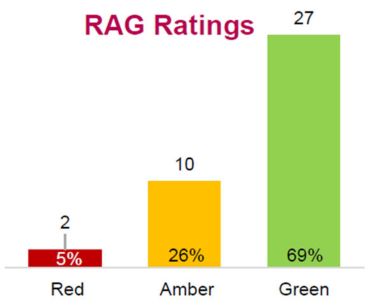
Work areas have refreshed their Service Plans again this year, this time in Word format using a corporate template. Some work areas have developed plans in different formats to better suit their business needs. The refreshed Service Plans include clear links to the Business Plan priorities and strategic outcomes.

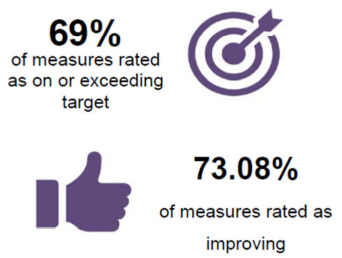
During the year the refresh of the Performance Management Framework (PMF) has taken place This has included updating not only the information used in the PMF to ensure all links to policies and procedures are up to date, but also looking at the ways in which the information is presented and accessibility 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 Business Plan and County Vision.

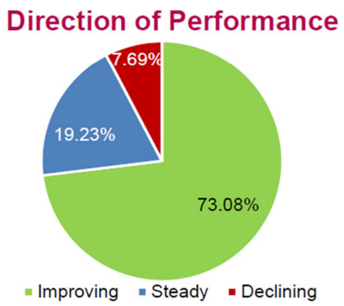
The recent Q4 performance report further details the results below:

High level Summary

	RAG Rating			Direction of Performance*		
	G	A	R	↑	→	↓
A county infrastructure that drives productivity, supports economic prosperity and sustainable public services	8	4	1	2	1	0
Safe, vibrant and well-balanced communities able to enjoy and benefit from the natural environment	7	2	0	3	3	0
Fairer life chances and opportunity for all	3	1	1	4	0	1
Improved health and wellbeing and more people living healthy and independent lives for longer	9	3	0	10	1	1
TOTAL	**27**	**10**	**2**	**19**	**5**	**2**







*Not all measures carry a direction of performance therefore total numbers will not match total number of RAG ratings

<u>Summary of Financial Performance</u>

Revenue spending in 2018/19

In February 2018, the Authority agreed its budget for 2018/19 at £316.882 million, amended to £317.882m in February 2019 due to a correction in the reporting of an element of the Collection Fund surplus. This resulted in a band-D council tax of £1,192.16 which included an increase in Council Tax of 2.99%, an additional 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 80.

Table 1: Comparison of actual spend against budget

Service	2018/19 budget £millions	2018/19 actual spend £millions	Difference £millions	Difference %
Adults & Health	132.186	132.186	0.000	0.0
Children & Families	61.910	63.697	1.787	2.9
Children & Learning	24.554	23.706	-0.848	-3.5
Schools	17.433	17.433	0.000	0.0
Public Health	0.966	0.386	-0.580	-60.0
Economic & Community Infrastructure Services	65.007	61.972	-3.035	-4.7
Support Services & Trading Units	20.785	20.782	-0.003	0.0
	322.841	**320.162**	**-2.679**	**-0.8**
Non-service items and in year funding deficit (costs such as bank charges that cannot be linked to a particular service)	-4.959	-5.351	-0.392	7.9
	317.882	**314.811**	**-3.071**	**-1.0**
Funded by:				
Revenue Support Grant	-16.082	-16.082	0.000	
Business Rates	-65.880	-68.718	-2.838	
Council Tax	-235.920	-235.920	0.000	
	-317.882	**-320.720**	**-2.838**	

Capital spending in 2018/19

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 2018/19 our capital spending was £114.412m (£103.606m in 2017/18). The following table gives more detail on how we spent this money.

Table 2: Major Capital Schemes

Scheme		2018/19 £millions	£millions
Economic Community and Infrastructure	Local Enterprise Partnership	19.133	
	Road Structures	25.467	
	Superfast Broadband	3.144	
	Somerset Rivers Authority	2.757	
	Street Lighting	0.844	
	Other Projects	27.815	
			79.160
Children and Learning	Schools' Basic Need	22.359	
	Schools' Capital Repairs	2.533	
	General Education Provision	1.402	
	Other School Projects	1.580	
	Other Children's Services	0.020	
	Early Years	1.025	
	Schools' Building Improvements	0.001	
			28.920
Support	ICT Investment & Development	2.479	
	Customer Access & Shared Assets/One Public Estate	2.161	
	Other Projects	0.970	
			5.610
Learning Disabilities	Minor Works	0.006	
	LD Property Reconfiguration	0.006	
	Other Projects	0.627	
			0.639
Adults and Health	Extra Care Housing Fund	0.070	
	Other Projects	0.014	
			0.084
	Total Capital Spending		114.412

Borrowing facilities

Under the Prudential Code, the Authority has set an authorised limit against which our external borrowing is monitored and managed. For 2018/19, the total approval was £437 million (next year's approval is £437 million). On 31 March 2019, the amount we owed was £338 million (£344.51 million in 2017/18).

On 31 March 2018 £millions	Borrowing	On 31 March 2019 £millions
160.3	Public Works Loan Board (PWLB)	160.2
175.8	Other long-term loans	170.3
8.4	Other organisations investing in the Comfund (note 34)	7.5
344.5		338.0

In line with accounting practice, the Authority must show the 'fair value' of its loans. The fair value of the PWLB loan is £229.048 million at 31 March 2019 (£224.663 million at 31 March

2018). The fair value of the other long-term loans is £260.682 million at 31 March 2019 (£278.148 million at 31 March 2018).

Significant Assets & Liabilities

The Authority has a strong Balance Sheet as at 31 March 2019 (page 83) with the most significant Assets and Liabilities shown in the table below:

On 31 March 2018 £millions	Balance Sheet Extract	On 31 March 2019 £millions
909.6	Property, Plant & Equipment	909.9
174.3	Short Term Investments	145.5
24.0	Cash & Cash Equivalents	35.6
-335.7	Long term Borrowing	-330.5
-42.9	Long Term Liability - PFI/Lease	-42.0
-802.5	Long Term Liability - Pensions	-788.5
55.1	Usable Reserves	74.7
-223.7	Unusable Reserves	-226.7

Usable Reserves

On 31 March 2019 the Authority had the following reserves available:

On 31 March 2018 £millions	Reserves	On 31 March 2019 £millions
3.7	Capital reserves	6.1
8.5	Capital Grants/Contributions Unapplied Reserves	7.0
3.6	Revenue reserves set aside for capital	3.4
6.3	Other revenue reserves which we have set aside	17.7
19.1	Schools' carry-forward fund	17.5
-7.0	Services' carry-forward fund	5.3
20.9	General reserves (see the note below)	17.7
55.1		74.7

General reserves represent just 6.7% of the 2018/19 budget. This shows that the Authority needs to continue to operate within very strict financial limits.

Future Developments & Priorities

Looking ahead to 2019/20 and the future

The Authority's Medium-Term Financial Plan (2019-22) set out proposals to develop its financial resilience over the long-term while also supporting the delivery of the council's key priorities within the council's vision to create:

- A thriving and productive County that is ambitious, confident and focussed on improving people's lives;
- A county of resilient, well-connected and compassionate communities working to reduce inequalities;
- A county where all partners actively work together for the benefit of residents, communities and businesses and the environment, and;
- A county that provides the right information, advice and guidance to enable residents to help themselves and targets support to those who need it most.

Despite the on-going reductions in Government funding, and the increasing demand for core services, such as in children's and adult services, the Council continues to make progress in delivering quality services to residents, within the resources available to the organisation.

The Local Government Financial Settlement, published on 29 January 2019 and confirmed by Parliament on 5 February 2019 confirmed many of the planning assumptions, for example the limits on council tax increase permissible without a referendum: 3% for general council tax and a cumulative 6% over three years (2017-2020) for adult social care. Having applied a total of 5% in the prior two years, the authority proposes the final 1% increase in adult social care council tax flexibility is taken up in 2019/20.

As part of the Financial Settlement, Somerset has been accepted as a 75% Business Rate Pilot alongside the County's district and borough councils for 2019/20. This presents an opportunity to develop partnership working across local government in Somerset to benefit the economic prosperity of the County as well as apply some relief to the financial challenges of each partner. However, since this is a one-year pilot, the opportunities will be limited.

Planning beyond 2019/20 with certainty remains a significant challenge since 2019/20 is the final year of the four-year settlement period and a Spending Review (SR) is being prepared by the Government for consultation in 2019 and due to apply from 2020/21. Alongside a new SR, the Government are also reviewing the system behind funding allocations (known as the Fair Funding Review) and published two further consultations as part of the Financial Settlement:

- A Business Rate Reform consultation; and
- A Relative Needs and Resources consultation.

These consultations are now closed, but the outcome of the consultations is currently unknown as Government are analysing the responses provided.

Economic outlook

The economic outlook will continue to depend significantly on the nature and timing of EU withdrawal, in particular: the new trading arrangements between the European Union and the United Kingdom; whether the transition to them is abrupt or smooth; and how households, businesses and financial markets respond.

GDP growth appears to have been stronger than previously expected but is expected to be subdued in the near term. Brexit-related uncertainty has led to a reduction in business investment and an increase in stock building. In comparison, household spending has been relatively resilient, although the housing market has remained subdued. A weaker global economy has dragged on export growth.

CPI inflation was 1.9% in March19 and is expected to remain slightly below the Monetary Policy Committee's 2% target in the short-term. The labour market remains tight, with the unemployment rate projected to decline to 3.5% by the end of the three-year forecast period. Annual pay growth has remained around 3.5% and unit labour cost growth has strengthened to rates that are above historical averages. As excess demand emerges, domestic inflationary pressures are expected to firm, such that CPI inflation picks up to above the 2% target in two years' time and is still rising at the end of the three-year forecast period.

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.

The most recent Comprehensive spending Review 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.

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 in to a Business Rates Pool along with Sedgemoor, Mendip, South Somerset, West Somerset and Taunton Deane in 2018/19. This provides greater resilience to any economic variations across the county and ultimately retain more Business Rates income locally.

Tackling the deficit

The overall funding shortfall, known as the budget gap currently projected by the Authority in its medium term financial plan (2019-22) is £5.221m in 2020/21 only. There is an assumption of no central funding through Revenue Support Grant from 2020/21 when it is expected that we will receive a greater share of Business Rates. The authority is able to raise Council Tax every year with specific permission for 2019/20 to raise Council Tax by 2.99% without triggering a council tax referendum. The authority had the additional ability to raise a specific precept for Adult Social Care in 219/20 only. The council tax referendum limits beyond 2019/20 are not known pending the Spending Review 2019. Medium Term Financial Plan (2019-22) papers can be found on the authority's website or are available on request (see More Information section at the end of this document).

The Cabinet recognised the need for improved public accountability and transparency through significantly strengthened financial reporting during 2018/19, in terms of frequency, quality and timeliness of reports to Cabinet, Audit Committee and Scrutiny meetings. This improved approach will continue throughout 2019/20 to ensure on-going transparency in financial reporting. The Councils Medium-Term Financial Plan (2019-22) sets out proposals to further develop its financial resilience over the long-term whilst also supporting the delivery of the council's key priorities.

We continue 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 whilst providing good outcomes for our residents. 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 a significant transformation programme of works under way to improve demand management and simultaneously improve outcomes for vulnerable children in Somerset is well under way. This will see cost efficiency over the forthcoming years. An early review of potential budget risk areas also indicates that whilst there may be underspends in Adult Social Care in 2019/20 the service continues to face serious long-term demographic challenges and must therefore build future resilience. Joint working with the District Councils in Somerset continues with a new Waste Services contract that includes additional kerb-side recycling services (Recycle More) with the objective of increasing recycling across Somerset whilst driving through cost efficiencies. Having taken the opportunity to replenish negative earmarked reserves in 2018/19, earlier than originally planned may enable alternative use of this funding in 2019/20 to deliver corporate priorities subject to successful delivery of the agreed budgets.

75% Business Rates Retention (BRR) Pilot

To test increased business rates retention and to aid understanding of how the Government transition into a reformed business rates retention system in April 2020, local authorities were invited to apply to become 75% business rates retention pilots for 2019/20 only. This Council applied jointly with all the Somerset district authorities (Mendip, Sedgemoor, South Somerset, West Somerset and Taunton). The provisional Local Government Settlement announced that the Somerset application was successful.

The pilot allows the Somerset area to retain 75% of locally collected business rates instead of the 50% retained under the current scheme. The exact level of benefit to the Council cannot be fully determined since the gain will depend upon actual business rate collection levels, although a prudent benefit based on best estimates indicates a gain of £1.200m in 2019/20 specifically for this Council. However, across the whole area, gains will be greater and Somerset authorities have agreed a share of the benefits as set out below:

75% BRR Pilot – Somerset Pool gain

	75% BRR Pilot Gain (£m)
Somerset County Council	1.2
Other pool members	2.1
County-wide pot	3.4*
Total Gain	**6.7**

**under the terms of the bid, the Council will receive an additional £3.4m in 2019/20 which will be held in an earmarked reserve to be used to fund local projects, determined in partnership and designed to generate economic growth in the Somerset area.*

Funding from 2020/21 onwards

Planning beyond 2019/20 with certainty remains a significant challenge since 2019/20 is the final year of the four-year settlement period and a Spending Review 2019 (SR) is being prepared by the Government for consultation in 2019 and due to apply from 2020/21. Alongside a new SR, the Government are also reviewing the system behind funding allocations (known as the Fair Funding Review) and have published two further consultations as part of the Financial Settlement (as mentioned earlier in this report).

Reserves
In addressing financial commitments and the financial impact of the pressures felt in services Earmarked Reserves and General Reserves have been used to address in year overspends in previous years. This resulted in reduced reserve levels for the authority. During 2018/19 and the significant focus to address the authority's financial resilience reserves have been partial replenished. It is planned to allocated funding in future years to inject additional funds into reserves to ensure it remains financially resilient.

Transforming Somerset County Council to Improve Lives Programme
The Transforming Somerset County Council to Improve Lives Programme (TSTILP) will deliver an ambitious redesign of our services to enable us to better manage demand and put prevention at the heart of our thinking. It will also set a digital agenda that supports and empowers our customers to help themselves as well as enabling us to commission very differently in the future so that the people and communities of Somerset can thrive. Alongside this redesign the programme will focus on transforming the culture of the organisation and ensuring the workforce is equipped with the right skills and demonstrates the behaviours needed to bring the organisational vision to life.

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. Work continues in determining the most effective model for 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 for future years, 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 2018/19 and shows our financial position as at 31 March 2019. It includes the following statements and accounts:

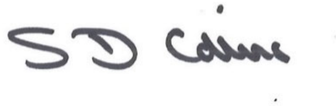
- Comprehensive Income and Expenditure Statement;
- Movement in Reserves Statement;
- Balance Sheet;
- Cash Flow statement;

- 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.

<u>Inspection and audit</u>

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, could ask the auditor any questions. This is a legal requirement, but my department will answer questions from anyone with an interest at any time. These accounts are approved by our Audit Committee on 30th July 2019.



Sheila Collins
Interim Finance Director
(Chief Financial Officer)

30th July 2019

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 2019 and its income and spending for the year ending on that date.

S D Collins

Sheila Collins
Interim Finance Director
(Chief Financial Officer)

30th July 2019

Independent Auditor's Report

to the Members of Somerset County Council

The audit report will appear here.

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Somerset County Council

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Annual Governance Statement (2018/19)

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 2018/2019.* 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, Lizzie Watkin, Strategic Finance Manager at ewatkin@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 (SCC) 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 Monitoring Officer and comprises representatives from the Senior Leadership Team and professional leads such as legal, audit, risk and the Director of Finance.

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.

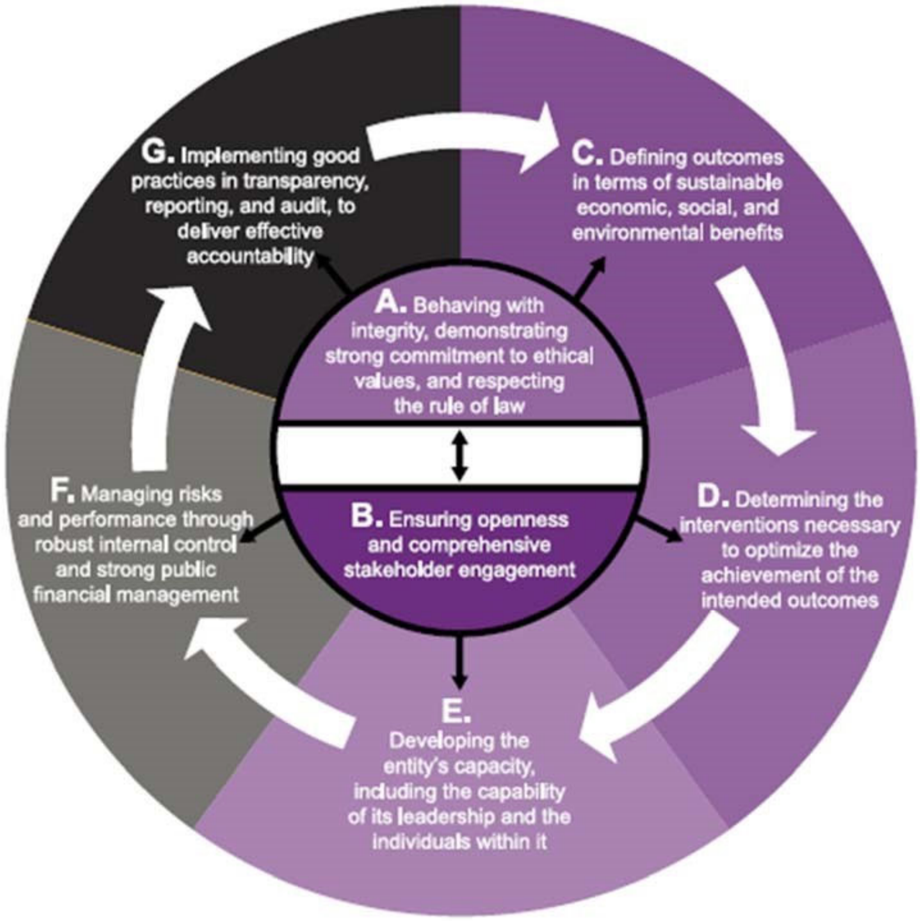
Unless stated below, the governance framework has been in place at Somerset County Council for the whole of the year ended 31 March 2019 and up to the date of approval of the Statement of Accounts. The County Council continually seeks to improve its governance arrangements, and evidence of continued "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 2018/2019 is the third 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 2017/18 accounts, for 2018/19 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 Lizzie Watkin at ewatkin@somerset.gov.uk

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



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 postelection they have a full induction and training programme, including the Members Code of Conduct. However, in between these full induction periods, further training sessions are tailored for members on specific topics, e.g. finance, the council's strategic priorities etc. as required. 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 were included as part of the Internal Audit Plan for 2018/19 and reasonable assurance was given.

Demonstrating strong commitment to ethical values

The Council 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 2018/2019, 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

The Councils 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. The Constitution is the guarantor of the continuing openness, accountability and integrity of the Council's decision-making processes and sets a series of exacting standards against which the Council's actions can be judged and, if necessary, challenged. 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.

Since 2002 the County Council' s Constitution has been regularly and consistently (by the Council' s Monitoring Officer and by elected members through the appropriate committee [currently the Constitution and Standards Committee], as appropriate). The Constitution is published on the County Council' s website and is also available for inspection at the Council's offices. The Monitoring Officer undertakes an annual review of the Constitution and makes any recommendations for changes to the Annual General Meeting of the Council in May. This review of effectiveness is informed by the work of managers within the authority who have a responsibility for the development and maintenance of the governance framework, policies and systems, the Healthy Organisation Internal Audit report, and by comments made by the external auditors and other review agencies and inspectorates. In addition, individual parts of the Constitution are reviewed and updated on an as and when required basis (for example following legislative change) to ensure that the contents are as up to date as possible.

The sign-off process for Decision reports require sign-off amongst others by County Solicitor, the Monitoring Officer, and Director of 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 (CSOs), and with the guidance of specialist procurement and legal services officers to comply with the legal requirements such as the EU procurement regulations. The CSO's are reviewed and updated at least annually, maintaining their relevant and effectiveness, including ensuring spending thresholds reflect current authorisation levels.

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.

Ensuring openness and comprehensive stakeholder engagement

Openness

The Council's 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. These were further reviewed at the Council meeting in May 2019.

The Council's Key Decisions are all publicly recorded, and the templates for decisions require officers to provide all necessary and pertinent information to make an informed decision. Cabinet forward plans are published well in advance, again in accordance with Access to information requirements. There is 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

A substantial amount of information on our and our partners' websites are provided automatically. The Council complies with the transparency requirements and go through an annual assurance process to confirm that this is the case. Spend information is published as required to do so under the regulations.

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

The Council publishes a Your Somerset newspaper delivered free to all homes in Somerset three times a year. This highlights key service changes and developments, success stories and shares information to help access services.

The Council continues to engage with partners, stakeholders and staff through a variety of media. Staff receive a link to a weekly online newsletter, Our Somerset, which includes all the latest news, events and signposts to useful corporate information. Managers also receive a monthly briefing through Core Brief, which they cascade to their staff and everyone has the opportunity to complete regular staff surveys, which are carried out three times a year.

Engaging comprehensively with institutional stakeholders

The Council has a strong record of consultation and engagement: there is a consultation website with suitable guidance and a dedicated consultation officer. In 2018/19 we have contributed to 58 consultations and external surveys with over 8,000 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:

- Library Service Consultation.
- Extra Care Housing (Adult Social Care).
- Educational Psychologist Service
- Schools (Admissions and Term dates)
- Drugs and Alcohol Partnership Service Contract
- Sexual Health Services.

The Council has a Partnership Register that provides a list / record of all partnerships that the council is involved in, this is refreshed on an annual basis. Partnership Lifecycle Guidance is available and is also 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.

The Council has 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 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. The Leader of Somerset County Council is the chair of the joint committee, which is working closely with the Local Enterprise Partnership (LEP) to develop the Local Industrial Strategy for the area. The Joint Committee and LEP geographies is co-terminus.

The partnership working with our health partners remains of critical importance in both service delivery and in shared financial efficiencies. The council has continued to engage fully with NHS partners to develop health and social are integration. The Counties 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 2018/2019, 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. Prevention is a key strand of our transformation programme, Transforming SCC to Improve Lives. The Council undertake an annual statutory Joint Strategic Needs Assessment (JNSA) which informs the Health and Wellbeing Strategy. Whilst focusing on young people, the implications affect all ages across all communities.

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 4 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 trailblazer nationally and has provided substantial financial benefits to all partners and strong performance around areas such as recycling and food waste. Throughout 2018/19, the partnership has progressed a procurement process to award a new collection contract, which will facilitate the collection for recycling of a wider range of materials, which in turn will drive up the County’s recycling rate. A new contract was awarded in May 2019 that takes effect from May 2020.

The Somerset Rivers Authority, a partnership of all the Councils in Somerset, the Environment Agency, Natural England and the Internal Drainage Boards was established following the extensive floods of 2014. The County Council hosts this partnership and has taken a leading role in securing funding and delivering projects to reduce flooding and mitigate it's impacts.

During 2018, a sub-national transport board for the peninsula was established, Somerset County Council is working with Cornwall Council, Devon County Council, Plymouth Council and Torbay Council in respect of strategic transport issues and securing funding to address the areas transport needs.

The 2018 Corporate Peer Challenge Feedback Report received in April 2018 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.

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

Defining outcomes

A new County Vision was approved by Full Council in May 2018. Our County Council Vision is:

- A thriving and productive County that is ambitious, confident and focussed on improving people's lives.
- A County of resilient, well-connected and compassionate communities working to reduce inequalities.
- A County where all partners actively work together for the benefit of our residents, communities and businesses and the environment in which we all live.
- A County that provides you with right information, advice and guidance to help you help yourself and targets support to those who need it most.

Central to the Councils business is that everything the council does should be designed to help improve outcomes for residents. The County Vision identifies the need for the Council to work with partners, communities and businesses to find the best ways to achieve the outcomes that matter to them, align our work and resources and make use of all the levers available. Central to this is the need to always put customers at the heart of everything the council does.

Limited resources mean there is a need to be realistic about how much can be done. This means making difficult choices on where to focus resources so more can be done with less, and we can work with together with partners to do more. Key to this are robust financial, commissioning and decision-making processes, good quality data, good governance, performance management, effective technology and a willingness to do things differently.

The Council's Business Plan was originally approved by Cabinet in June 2018 (and up-dated at Full Council in May 2019). The Business Plan outlines how we will work with partners and communities to deliver the County Council's 'Vision for Somerset' in the most efficient way possible for Somerset's taxpayers.
The Business Plan contains four strategic outcomes that show what the Council will focus on to deliver its Vision and improve lives. Beneath each strategic outcome sits four key priorities and a range of activities. By lining up these activities, priorities and strategic outcomes with the Vision the authority can plan ahead and monitor progress.

Within this wider Vision, are a number of specific areas that underpin it such as the Devolution Bid that sets out the outcomes that could be delivered by 2030, the local context, the councils 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.

The 2018 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 the council manage the change to services and to governance in an appropriate manner. This includes regularly reporting progress in public about how major transformational initiatives and other actions to improve services, are governed. Progress is regularly reported through the Performance reporting mechanism. Risk management work is reported quarterly, so that members are aware of the risks and mitigations to achieving our aims.

When the Council takes decisions, such as the Medium-Term Financial Plan (MTFP) approval, the council ensure that consultations have been carried out as well as individual equalities impact assessments and an overall cumulative equalities impact 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.

Key Decisions taken by Cabinet in 2018/19 include the allocation of £9.98m of additional Department for Transport (DfT) grant towards enhancing the highway network, specific contract awards for the construction of a new carriage way at Colley Lane, unlocking enterprise space in Bridgwater and the upgrade of the M5 J25. In addition, a number of school builds were commissioned in 2018/19 which include; Hazelbrook special school linking with Selworthy school In Taunton, Bridgwater Bower Lane Special School, Taunton Nerrols primary school and Somerton King Ina primary. Full Council, in November 2018, approved new borrowing to purchase waste vehicles enabling the authority to achieve the best value for money from the contract with the private sector provider.

The Council continues its focus on Asset Rationalisation and Estate Optimisation, improving utilisation and creating more flexible multi-purpose spaces that recognise evolving requirements both for ourselves and others. Investment has been approved to undertake essential works to A Block, 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 are being 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. The Council's work on equalities, makes every effort to ensure fair access to services for all.

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.

The Council's decision-making processes as set down in the 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 the governance framework. The overall scrutiny and audit framework play a key role as a 'critical friend' in shaping decisions and therefore their intended outcomes.

During the MTFP (2019-22) the draft proposals were presented to all 3 Scrutiny Committees (January 2019) 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

The Council is a commissioning organisation, and its senior officer structure clearly reflects that approach with Lead Commissioner. An officer Strategic Commissioning Group (SCG) is in place to oversee this activity, which is attended by key commissioning specialists and key officers from support services. The SCG reviews all proposals for new contracts, scrutinising and managing Commissioning Gateway activity with a strong focus on financial savings and accountability.

The intranet has specific guidance as to how the council works through the commissioning cycle of Review, Analyse, Plan and Do. The commissioning intentions are overseen by the Commissioning Board, which has Senior Leadership Team and subject matter expert participation.

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

The 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 2018/2019, when significant overspends were reported to Cabinet and Place Scrutiny. As a result, a set of additional proposals for change were put in place to urgently recover the forecast overspends and turn the financial position of the County Council to a balanced position by the end of year. A robust intervention process was set up and cross cutting team mobilised to ensure control measures were in place with increased frequency of monitoring to the Senior Leadership Team, Cabinet, Audit Committee and Scrutiny. The outturn position for 2018/19 was reported to the June Cabinet and Place Scrutiny and showed an underspend.

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 set out a number of recommendations that required action to address the financial concerns, focussing on "strong financial accountability in all areas of the organisation", with a framework "owned corporately and consistently applied".

Throughout 2018/19 the County Council has been focused on addressing all these recommendations as a matter of urgency. In May 2018, the Chief Executive 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) made it clear that this "should be everyone's overriding priority".

Significant governance was put in place for this programme of work. This ensured that savings and efficiency ideas were 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 were 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 was issued to control expenditure and a new Recruitment Protocol for vacancy management.

Throughout this period the council continued to be open with staff and partners as to the nature of the problem through Roadshows and communications such as Your Somerset.

Economic Development

Increasing economic prosperity is a strategic priority for Somerset County Council and our business plan includes a programme of prioritised activity to stimulate business growth, increased productivity and more and better employment opportunities for our residents. This programme of activity is closely aligned to the productivity for the Heart of the South West area and, locally, the Somerset growth plan. Somerset County Council has an established track record of targeted investment from our own capital programme and re-use of our land assets, aligned leverage of funding from Central Government, European programmes and the private sector to deliver this programme. Examples include:

- an ongoing programme of work to deliver in three phases the **Somerset Energy Innovation Centre (SEIC)** in Bridgwater. A total of £20 million has been invested in SEIC over these three phases, with SCC investment leveraging circa £15 million of investment from external sources. SEIC is designed to enable business growth, innovation and inward investment in the nuclear and wider clean energy sector, with particular links to the Hinkley Point C growth catalyst;
- the **iAero centre** in Yeovil, where SCC has secured a peppercorn lease on land owned by the globally significant Leonardo Helicopters and leveraged circa £7 million of Local Enterprise Partnership and European Regional Development Fund investment to enable the development of innovation centre focussing on rotorcraft technologies and sustaining the cluster of advanced manufacturing businesses in the vicinity of Yeovil. Development of the centre commences in July 2019;
- A proposed **Geospatial innovation centre in Taunton**, linked to the presence of the United Kingdom Hydrographic Office (UKHO) in the town. UKHO is a global leader in maritime data and seabed mapping and the centre will enable the UKHO to work with small and medium sized enterprises, academia and other Government agencies to capture economic growth from new market opportunities arising from this data. SCC has allocated funds in its capital programme and is working with Taunton Deane Borough Council to facilitate the delivery of the centre on

strategically located land owned by the Borough Council on the town centre Firepool site; and

- An ongoing programme of commissioning **enterprise centres in market towns and rural centres in the county** to address market failures in the delivery of high quality workspace for new and early stage businesses and to provide business support in a managed workspace environment. Once again SCC is making use of existing assets (land and buildings surplus to service needs) and leveraging Government and European Funds to maximise the value of our own investment in this programme.

The operating model deployed by SCC across these investments involves the Council establishing the asset and subsequently commissioning an external operator to manage the facility, contract lettings and deliver business support without ongoing revenue implications for the authority. Where feasible a revenue return is secured for the authority from operating surpluses.

This programme of activity has been positively acknowledged in SCC's most recent corporate peer review and monitoring and audit by the LEP and MHCLG has provided favourable feedback on SCC's approach to project management across this programme.

During 2018/19 the council has continued to look to the longer-term economic prosperity of the County and region through submission of various bids (eg Local Growth Deals, Housing Infrastructure Fund, Business Rate Pilot application). Moving into 2019/20, the council will progress these areas of focus once able and is already progressing the allocation of the BRR pilot gains that have been dedicated to local growth.

Optimising achievement of intended outcomes

The Council regularly and routinely report performance against plans and budgets. In addition to the reports to Cabinet, each SLT Director has an individual scorecard that encompasses key performance indicators, strategic risks and financial information, which are 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, the Council developed a reporting mechanism for children's services and Quarterly Performance Review Management (QPRM) papers during 2017/2018 to aid the improvement and have continued this mechanism throughout 2018/19 and 2019/20.

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

The approach to the MTFP (2019-22) during 2018/19 was amended in recognition of the non-achievement of themed based savings proposals particularly the cross-cutting savings in previous years. The change in approach also included identifying all known services pressures, increasing the confidence in delivery of savings and ensuring sensible assumptions about future funding sources. There was a focus on ensuring that the budget for Children's Services was rebased to ensure a realistic budget for the continued improvement journey in that area. In addition, the strategy to take opportunities to improve the councils reserves position during 2018/19 adds to the financial resilience of the Council. This is especially important given the uncertainty around future Local Government Funding beyond 2019/20.

The Councils financial planning (revenue and capital) will continue to look ahead over multiple years and seek to reduce uncertainty about future Local Government Funding (through the Spending Review 2019, Business Rate Retention Review and Fair Funding Review).

The MTFP (2019-22) decisions taken in February 2019 ahead of the financial year included a Summary of Equalities Impacts MTFP 2019/20.

The Council has a Social Value Policy Statement setting out expectations for those who wish to do business with the County Council. There is also guidance and training in place to help commissioners to identify and achieve social value through their commissioning and procurement activity. The Council is able to report on our social value activity through its Commissioning Gateway management system and are strengthening this approach to allow us to report robustly on the outcomes that have been achieved. This accords with the Public Services (Social Value) Act 2012.

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

Developing the entity's capacity

The Framework requires the Council to consider the use of its assets on a regular basis to ensure their continuing effectiveness. In terms of highways activities, there is already a requirement to management the 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 resources in maintaining the highway, are financially rewarded through the DfT Local Highways Infrastructure Incentive Fund. 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 the Council is 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 2020/21 if maintained, and our current DfT self-assessment suggests that it will.

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

- Confirmation of the council's overall policy of continued rationalisation;
- 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;
- Applying a corporate landlord approach to all property assets;
- Increased transparency and visibility of property costs and receipts; and
- A focus on the future of the council's property estate as a flexible, low cost, sustainable and revenue generating portfolio.

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

The requirement to build new schools in Somerset to meet the growing basic need for school places is a key driver of the capital investment programme. We are bidding for funding to the DfE and through the Housing Infrastructure Fund to provide resource for the capital programme. There is also a shortage of places in some areas of Somerset according to data from the Childcare Sufficiency Assessment in 2017 and 2018. The programme of Learning Infrastructure asset build as a result is significant and will remain so for the financial planning horizon and the County Council continues to maximise all external funding opportunities. The County Council has always been a member of benchmarking groups across services to better understand its costs and performance. In 2018/19, additional benchmarking was carried out in Adults Services using a new Value for Money tool developed by the Local Government Association, comparing 152 Local Authorities.

The Council's People Strategy has been updated this year following consultation with staff and links to the Council Vision and Business Plan.

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

The Councils 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.

As described earlier, following 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. On an on-going basis there is ad hoc training provided as required, including annually on the Statement of Accounts ahead of the Audit Committee each July.

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.

All officers 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.

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

Managing risk

The Council has a formal risk management Strategy and Policy 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 Strategic and 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. 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 where the strategic financial risk (ORG043) has been reported to every Audit committee in 2018/19 alongside a progress up-date on the council's value for money assessment.

The Council uses a dedicated risk management IT system (JCAD) to record, monitor and report on our risks. Each risk has a named senior risk owner and each mitigation (actions) also have individual owners who has the responsibility to review the risks, and to ensure that all mitigations are completed in the appropriate timescale. Output, in the form of reports, from JCAD are reported regularly to Audit Committee.

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

Managing Performance

The established reporting format has moved from the Performance Wheel to charts and narrative which has been welcomed as being more transparent and easier to understand by officers and politicians alike.

Cabinet received a quarterly performance report during 2018/19, which provided a high-level overview of the Council's performance across the organisation towards the priorities laid out in the Business Plan. This report is underpinned with a series of metrics that are used to evaluate the performance and provides members and senior officers with the information they need to lead and manage the ongoing progress towards the vision set out in the County Plan.

At SLT level, each Director has their own balanced 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.

The corporate performance reporting framework was updated during 2018/19 and now aligns clearly with the Council's Business Plan. There is a Performance Management and Framework Overview available on The Learning Centre.

The council operated 3 separate Scrutiny Committees during 2018/2019, 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, the 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 taken to Cabinet in budget monitoring, the frequency of which has increased in 2018/19 to monthly to support the increased focus and visibility. More information, on the revenue budget is included on a quarterly basis, together with reporting on the capital programme. In addition, throughout 2018/19, budget monitoring reports were submitted to relevant Scrutiny Committees to further improve transparency. In addition, the capital and revenue outturn reports are shared annually with Cabinet. This approach will continue during 2019/20.

Ofsted

Ofsted re-inspected Somerset Services for children in need of help and protection in November 2017 following an 'inadequate' judgement and government intervention in 2015. The report was published in January 2018 and provided an overall outcome of "Requires Improvement to be Good" in all service areas, and Adoption which was judged to be Good. The report outlined 13 recommendations for improvement which have been incorporated into the Children and Young People's Plan. 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

During 2018/19 Ofsted carried out Focused Visit (Inspection) of the council's front door children's social care services, including aspects of early help carried out on 29th and 30th January 2019. The Inspectors visited the early help hub, first response and assessment teams in Taunton, Bridgewater and Yeovil. Ofsted do not make graded judgements at the outcome of a focused visit. The outcome is about strengths and areas for improvement, reported in a published letter. Where inspectors find serious weaknesses, they identify areas for priority action in the published letter.

Although no priority actions were identified, 4 areas of practice were identified by Inspectors to require improvement to get to 'good' these are:

- Ensuring the child's lived experience is routinely captured to inform decision-making
- Being clear with families in all cases about the focus and time taken for any assessment
- Ensuring consistency of practice across all the teams in Somerset
- Improving the working with perpetrators of domestic abuse in families

Plans in place to address the first three areas are incorporated into the Children's and Young People's Plan and discussions are underway with Public Health in relation to improving the work with perpetrators of domestic abuse in families.

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.

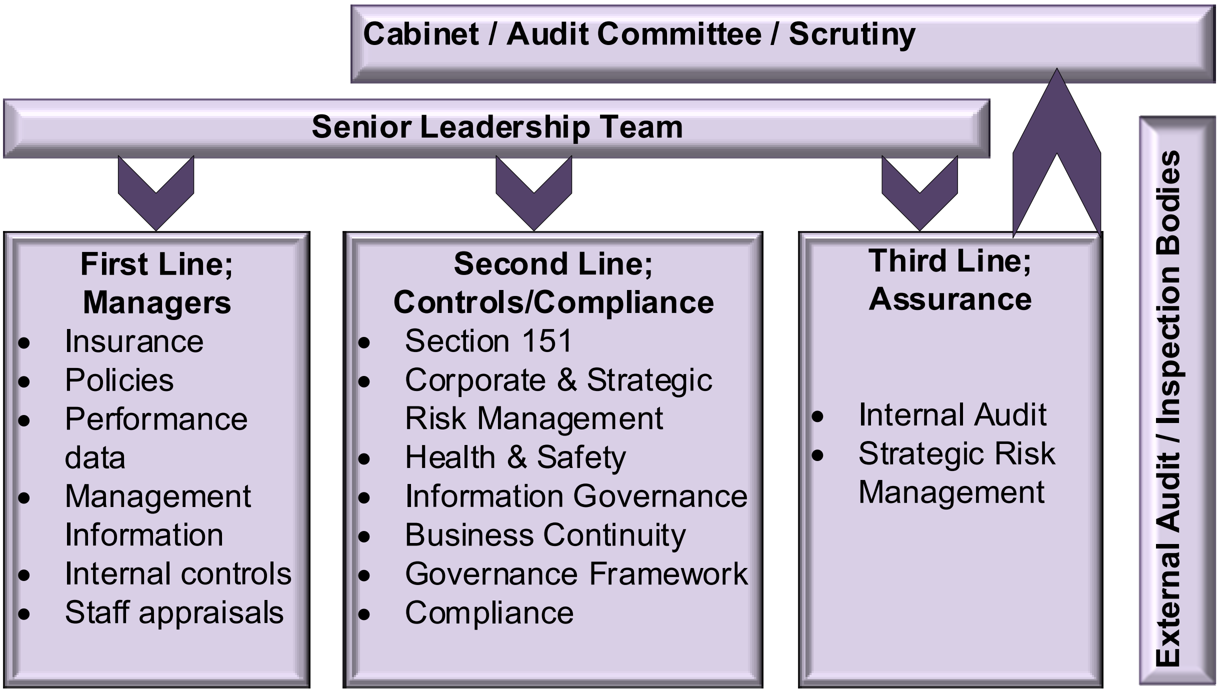
Ofsted re-inspected Somerset Services for children in need of help and protection in November 2017. The report was published in January 2018 and provided an overall outcome of "Requires Improvement to be Good" in all service areas, other than Adoption which was judged to be Good. The report outlines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

Robust internal control

The Healthy Organisation review by our internal auditors accredited the council in 2018/19 with high assurance / low risk in terms of its Corporate Governance.
The Senior Leadership Team is the Senior Officers body which brings together directors responsible for commissioning, resources, support and customer services and service delivery. Key activities include:

- Develop strategy/policy
- Oversee financial, performance and risk management
- Enable and co-ordinate matrix working
- Drive and oversee progress towards outcomes of the delivery of the County Plan and Business Plan
- Assurance against strategic and statutory functions of the Council and specific Directors

The following diagram depicts the '3 lines of defence' that the council employs for internal control and assurance:



The councils internal audit work is closely aligned with the risk management processes. Any internal audit report that only achieves "Partial" assurance is logged onto the JCAD system and all high priority 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.

The 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 2018/19, including reviewing the Anti-Fraud and Corruption work and debt management performance.
The external auditor has previously commented very positively on the engagement and effectiveness shown by the Audit Committee.

The internal audit function is provided by the SWAP Internal Audit Services (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 (planned for July 2019) 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.

The Councils working relationship with SWAP is contained with an Internal Audit Plan and a PSIAS compliant Charter. Prior to the start of each financial year, SWAP, in conjunction with senior management, put together a proposed plan of audit work. The

objective of the planning process and subsequent plan is to provide a well-informed and comprehensive annual audit opinion, based on sufficient and appropriate coverage of key business objectives, associated risks, and risk management processes.
The Council 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 officers who are trained fraud specialists for any necessary investigation. The Internal Audit Plan has some resource available for fraud and governance guidance and reactive work.

The National Anti-Fraud Network acts as the single point of contact for public authorities with regard to obtaining communications data under the Investigatory Powers Act 2016.SCC has specific named officers under this Act 2016 would be actively engaged should there be a necessitated acquisition of communications data for the detection or prevention of crime.

Managing Data

The Council 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. The Council 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.

The Council has overarching Information Sharing Protocols with our principle partners the NHS and the Police and 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.

In 2018/2019 a follow-up audit agreed recommendations in relation to the readiness for GDPR implementation audit (excluding DSARs) had been actioned and results were found to be satisfactory.

Strong public financial management

During 2018/19 there was significant turnover in the Finance Service leading to a number of internal opportunities for staff to transfer into new roles. In addition, subject matter experts continued to be employed in key technical posts such as insurance, pensions and treasury management.

At the Director level, from July 2018 an experienced Interim Director of Finance worked alongside the Senior Leadership Team, in setting up and then guiding the council through the necessary tighter financial focus to ensure delivery of a balanced budget in 2018/19 and in the development of a robust MTFP (2019-22). From March 2019 a different Interim Director of Finance was appointed to continue that improvement journey throughout 2019/20 as the council embeds the changed financial practices necessary to ensure a long term sustainable financial position.

The focus on financial turnaround throughout 2018/19 limited the opportunities for Continuing Professional Development (CPD) and wider team development. However, since February 2019, there has been an increased focus on team development and a person-centred approach will continue throughout 2019/20: developing skills, broadening learning opportunities, enabling CPD and further training, clarifying roles and responsibilities and strengthening experience where relevant.

During 2018/19 the frequency and quality of financial reporting updates at Cabinet, and where appropriate to other committees such as Audit Committee and Scrutiny Committees was increased significantly to include monthly revenue budget monitoring reports and more detailed reporting on the Medium-Term Financial Plan (MTFP 2019-22) development as well as reporting to every Audit Committee on the value for money assessment action plan progress. All decision papers (for committees, Cabinet member or senior officer delegated decisions) had financial sign-off before the decisions were 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. The financial system, SAP, has all the relevant division of duty controls in place for orders and expenditure, and there is a hierarchy of financial delegations, with only the most senior officers being able to commit the council to significant expenditure.

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, Treasury Management and Payroll. Although this has not been the case for Accounts Receivable, the audit has been discussed at the Audit Committee with a new Income Code of Practice launched, supported by training sessions for debt chasers and the improved control framework is currently embedding. We have always had a strong track record of recovering the overwhelming majority of money owed to the County Council and this continues to be the case.

The external auditor 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 2018 was highly commended by the external auditor in terms of quality and timeliness.

Whilst the 2018 Corporate Peer Challenge 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". The Corporate Peer Challenge Feedback Report received in April 2018 identified a number of recommendations in relation to financial management. This and the recommendations made by the external auditors in their adverse value for money assessment in July 2018, has led to substantial improvements during 2018/19, as summarised below:

- Addressing the funding gap in Children's Services and allocating some corporate contingency to help mitigate the scale of the budget gap;
- Additional savings proposals identified and approved in September 2018;
- A Financial Imperative programme established to control, track and monitor current year financial performance and delivery of savings;
- Weekly Senior Leadership meetings focussing on the Financial Imperative work;
- Increased reporting through Cabinet and Scrutiny meetings on a monthly basis and additional reporting to Audit Committee of management actions and progress in addressing the auditors adverse VFM opinion;
- A conscious decision to increase reserves where the opportunity allowed;
- A robust approach to budget planning for 2019/20 onwards to ensure the budget assumptions were realistic and deliverable.

The Corporate Peer Challenge Team revisited the County Council in April 2019 to review the overall progress against the recommendations. There was a specific focus on the financial challenges highlighted in the 2018 Corporate Peer Challenge. The formal feedback report is awaited following the visit, but initial feedback received indicates that the Peer Team considered that the Council has purposefully faced its immediate challenging financial issues and is now far more self-aware of its financial challenges.

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

Implementing good practice in transparency

The Council routinely publishes a large amount of information about itself and its activities. Quarterly performance reports are published on the council's website which complies 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.

Committees meet in held public session unless there is a statutory need for a confidential item to be considered. Agendas, reports and the minutes of the previous meeting are published on the council's website in advance of each meeting. Members access papers through MODGOV software, which makes it easy 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 council activities and inform the organisation, residents and stakeholders about 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 and elected members to ask questions of Cabinet Members. There are also regular reports from the Monitoring Officer, Section 151 officer and County Solicitor on statutory matters at appropriate times in the year. There is also a Constitutional requirement for the Chair of each Committee to take an Annual Report to Council to update on the committee's work during the previous year.

All decision-making reporting requires a decision 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 key decisions being taken. The Cabinet Forward Plan sets out proposed key decisions to be considered to allow for representations to be made. All Cabinet Member and officer Key Decision reports and decision records are published on the council's website.

The Councils Statement of Accounts includes a narrative on the financial position and on challenges that the County Council is facing and the Annual Governance Statement.

Assurance and effective accountability

All Partial internal audits received from SWAP Internal Audit Services are reported to the Audit Committee, and the relevant managers attend the Committee to explain what actions they are and have taken to address the audit findings. Any internal audit report that achieves Partial (or No Assurance) automatically receive a Follow Up audit to check on progress. The auditor will close an audit when they are satisfied that actions have been taken.

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.

Reflecting the Council’ s approach to the commissioning of services, Scrutiny continues to exercise influence through asking questions about delivery mechanisms, quality, monitoring, safety and responsiveness as an appreciative inquiry where problems are analysed and understood as a precursor to improvement and change rather than punitive action.

An increasingly important aspect of the council’ s scrutiny function is scrutiny of key partnership bodies in which the Council is involved. Examples established in recent years include: joint scrutiny (with the district councils) of the Somerset Waste Board, joint scrutiny of the Somerset Rivers Authority (with the district councils); and joint scrutiny of the Heart of the South West Local Enterprise Partnership (with other Heart of the South West Councils). As strategic partnerships continue to grow in importance to the Council in service delivery terms so the role of partnership scrutiny will grow to ensure full accountability for partnership decisions and to exercise the council’ s critical friend role to ensure better outcomes for Somerset’ s residents.

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.

The 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 the council report progress, such as the Core Council Programme, the names of the responsible officers, who are to ensure delivery of that particular initiative as included. Project management principles are followed 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). The authority is 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 2018/19, and, where they do not, to explain why and how they delivered the same impact.

Following the departure of the former Section 151 Officer early in 2018/19, the council then employed an Interim Director of Finance to guide the council through the acute financial challenges for most of 2018/19 and have now employed a second Interim Director of Finance from 1 March 2019 until 31 March 2020 to embed the changed practices and continue the council’s journey to financial sustainability. All three Section 151 Officers are CIPFA qualified with a broad range of upper tier experience.

Statement	SCC 2018/19 response
The Chief Finance Officer in a public service organisation:	The Director of Finance 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 all relevant strategic Boards (including the Governance Board) 3. had overall responsibility for the MTFP process and financial strategy and reports regularly to Cabinet and Full 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 the appointed finance team representative) on all major officer groups and committees such as the QPRM team for OFSTED improvements, Learning Disabilities, South West Partnership Board 2. was responsible for financial sign off of all Key Decisions before they can be implemented 3. 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, economically, efficiently and effectively.	1. had authority for Financial Regulations, Financial Procedures, the Income Code of Practice and all underlying policies and procedures 2. champions the value of a strong internal audit function alongside the Senior Leadership Team and liaises closely with the Chief Internal Auditor over specific audits and the audit plan
4. must lead and direct a finance function that is resourced to be fit for purpose	1. had a finance structure in place, bringing in external expertise where inexperience required additional skills at the senior level 2. Additional strategic financial planning experience has been recruited in May 2019 – and is expected to take up positions in early Summer 2019 – that will increase

	capacity to further embed the finance service offer to the Council). 3. established a wider Finance Leadership Team with effect from February 2019 to ensure a focus on team development, leadership behaviours and longer-term planning
5. must be professionally qualified and suitably experienced	1. all three S151 Officers are a CIPFA qualified accountant, with experience across a wide range of financial disciplines 2. all have been /are active members of the Society of County Treasurers (with the current Interim having been the President of SCT in 2017/18)

Review of effectiveness

The 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 Monitoring 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 subprinciples 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 SWAP Internal Audit Services and the work undertaken by the Governance Board to track all the recommendations made
- the Internal Auditor's proposed annual opinion report for 2018/19
- 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 SWAP Internal Audit Services (SWAP). During the year, SWAP Internal Audit Services 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 2018/19 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 2018/19, 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 2019/20.

A formal Report and Opinion from the internal auditor was presented to the Audit Committee on 20 June 2019.

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.

The details above up-date on changes to governance arrangements in 2018/19 and as the council continues its journey towards financial sustainability, the Governance Board will maintain a strong focus on future governance arrangements. Whilst 2018/19 has been a challenging year for the Council from a financial perspective, we are proud that performance has continued to improve, and governance arrangements have been enhanced to improve transparency and openness. Throughout 2019/20 the focus on this openness will continue and improved further. The aspects outlined below will form a focus for 2019/20.

Forward Look

Internal Audit

In the Internal Audit Plan for 2018/2019, a Healthy Organisation audit from SWAP was carried out in accordance with the agreed two-year cycle. This is a key review carried out across the SWAP partnership to help ensure that there is an adequate governance framework in place. This covered nine separate governance themes (Corporate Governance; Financial Management; Risk Management; Performance Management; Commissioning and Procurement; Programme and Project Management; Information Management and People Management & Asset Management) and the SCC position. Effectively, this provides the basis for an Action Plan on governance issues, which is monitored by the Governance Board in the first instance. In addition, a key focus of the 2019/2020 internal audit plan will be to review those areas where Healthy organisation audit work reported areas of weakness.

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

Whilst the council have made significant progress in turning around the financial position in 2018/19 and has ended the year with an underspend and a much improved reserves position, the council recognises there remains more to be done to secure long term financial sustainability. 2019/20 will have a focus on embedding the improved financial reporting and budget / savings monitoring tracking processes to provide assurance around delivery at the same time as more proactively planning its MTFP (2020-23). However, this can only be done in a context of on-going uncertainty (i.e. no Spending Review yet, no ASC Green Paper, no clarity on FFR / BRR), around the future of Local Government Funding meaning it remains imperative to plan scenarios for the future financial position that enables the council to respond to in a structured manner.

The Council presented a balanced budget for 2019/2020, assuming 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 2021/22) was £5.221m as at the Cabinet and Council meetings in February 2019.

Heart of the South West (HotSW) Joint Committee

This Joint Committee has met throughout 2018/19 and wil continue into 2019/20 to 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

Preliminary work was carried out during 2018/19 to estimate the financial (and non-financial) benefits for Somerset of an alternative model for local government. The Leader of the County has been clear in his desire to progress this agenda further during the medium term.

Council Vision for Improving Lives

The Councils vision for Improving Lives states: "*Our plan is to focus on a new approach to enable us to do this more often, faster and more joined up with our partners. Creating a sustainable organisation and a culture that promotes innovation and values our staff".*

To achieve this the council recognises that it must change: continuing with endless rounds of savings proposals is neither achieving our objectives nor being encouraging for our staff. We must build a platform to plan ahead and be the confident, ambitious and improving organisation that we wish to be.

Our organisational structure has served us well as we have improved all our major services over the last five years, but it needs to change to be fit for the future.

- We want to prevent rather than just react.
- We want to work alongside our partners and communities to make best use of all available assets to provide the best possible outcomes for the people of Somerset.
- We want to work with partners, who are so important to us, along with volunteers, to enable our communities to be strong and resilient, to manage demand and make best use of the Somerset £.
- We want to get Somerset up to speed with digital solutions and use developing technology to lead the way we deliver some of our services.
- We want to create a culture that values our staff and makes sure they can work creatively, focussed on improving the lives of our residents.

In redesigning our organisation, we will adopt the following design principles – these will be the building blocks of our new organisation design.

During 2019/20 the council will work together as one organisation and in partnership with other organisations across Somerset to prioritise early intervention and prevention, encourage self-help and commission creatively and to ensure value for money. We will make best use of all our skills and assets to deliver cost effective solutions and creating the right conditions for people and communities to thrive and help each other. We will manage our partnerships and contracts well to ensure they deliver the outcomes our communities need.

We will develop a shared vision with our communities, which focusses on improving lives. For individuals this must come from better life chances and choices and be supported within stronger communities capable of supporting people's needs and building on their strengths. For us emphasising prevention that minimises demand on our statutory services.

We will empower our customers to resolve their own queries and meet their own needs, at a time that suits them by providing the right advice and information and facilitating greater customer self-service via digital channels. Enabling our customers to resolve their problems quicker and ensuring our communities become more resilient and self-sufficient.

The approach to organisational redesign will be open and transparent, collaborating with staff and partners to enable us to co-design a financially sustainable Council that delivers better outcomes for our residents. It will enable us to develop a common goal and communicate a shared vision of the future with our partners and communities, aligned to their aspirations. And importantly, it will provide us with a plan for our change journey that defines the key success criteria for our transformation.

OFSTED

The Councils improvement journey in Children's services will continue in 2019/20 with a focus on the areas of practice for improvement identified in the follow up visit in January 2019 (as outlined earlier). Plans are in place to address these through the Children's and Young People's Plan and discussions are underway with Public Health in relation to improving the work with perpetrators of domestic abuse in families.

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
Chief Executive
July 2019

David Fothergill
Leader of the Council
July 2019

Statement of Accounting Policies

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

1 General

The Statement of Accounts summarises the authority's transactions for the 2018/19 financial year and its position at the year-end of 31 March 2019. The authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those Regulations require to be prepared in accordance with proper accounting practices. These practices under Section 21 of the Local Government Act 2003 primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the 2003 Act.

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

2 The difference between Capital and Revenue

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:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract. Where no performance obligations exist any 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;

- 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.

- To ensure a timely closure of accounts, the authority has applied a minimum accrual limit of £5,000.

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 2.40% (based on 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 pension's 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; and

- 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; and

  - 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 52.

9 Discretionary Benefits

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

10 Financial Instruments

Financial Liabilities

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

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

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

Where premiums and discounts have been charged to the CIES, regulations allow the impact on the General Fund Balance to be spread over future years. The authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the CIES to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Prior to 31st March 2018, our financial assets were 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 were recognised on the Balance Sheet when the Authority became a party to the contractual provisions of a financial instrument and were initially measured at fair value and 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 were based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For the loans that the Authority had issued, this meant that the amount presented in the Balance Sheet was the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement was the amount receivable for the year in the loan agreement.

Where assets were identified as impaired because of a likelihood arising from a past event that payments due under the contract would not be made, the asset was 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 was 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 were 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 were recognised on the Balance Sheet when the Authority became a party to the contractual provisions of a financial instrument and were initially measured and carried at fair value. Where the asset had 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 were based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument.

Where there were no fixed or determinable payments, income was credited to the Comprehensive Income and Expenditure Statement when it became receivable by the Council. Assets were maintained in the Balance Sheet at fair value. Values were 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 were 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 were balanced by an entry in the Available-for-Sale Reserve and the gain/loss was recognised in the Surplus or Deficit on Revaluation of Available-for Sale Financial Assets. The exception is where impairment losses had been incurred - these were 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 were identified as impaired because of a likelihood arising from a past event that payments due under the contract would not be made or fair value falls below cost, the asset was 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 had fixed or determinable payments, the impairment loss was 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 was 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 arose on the de-recognition of the asset were 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 could not be measured reliably, the instrument was carried at cost (less any impairment losses).

<u>Post 1st April 2018</u>

From 1st April 2018, IAS39 was replaced by a new standard IFR9 (see page 135 for further details of the transition) which resulted in the classification of our financial assets being based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. Under IFRS9, there are three main classes of financial assets measured at:

- amortised cost;
- fair value through profit or loss (FVPL); and
- fair value through other comprehensive income (FVOCI).

The authority's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest.

- <u>Financial Assets Measured at Amortised Cost</u>

Financial assets measured at amortised cost 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. They are subsequently measured 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 most of the financial assets held by the authority, this means the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

Expected Credit Loss Model

The authority recognises expected credit losses (where material) on all of its financial assets held at amortised cost, either on a 12-month or lifetime basis. Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. The authority carries out regular financial assessments of its significant contractors, to determine their financial position. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Impairment allowances for trade receivables carried at amortised cost are recognised based on the simplified approach within IFRS 9 using the loss-rate approach. IFRS 9 allows debt instruments that share similar credit risk characteristics to have their expected credit loss measured on a collective basis. The authority has adopted this collective assessment to consider the expected credit loss on its trade receivables outstanding at year-end, as it does not have reasonable and supportable information that is available without undue cost or effort.

To assess the potential collective credit loss for its trade receivables, the authority has used a provision matrix, based on historical observed and current default rates, to determine the possibility of default for each banding of aged-debt at year-end. No adjustment was made within the matrix for forward-looking estimates of expected credit loss as the authority's debt management process (further details available in the Credit and Counterparty risk section of Note 35 – page 141) will help mitigate the impact of any future increase in credit risk. It would also have been difficult to determine a reasonable and supportable estimate of future risk without undue cost or effort.

The matrix confirmed that a very small element of authority debt (in relation to trade receivables) has been historically written-off (less than 0.2% of total debts raised). In recent years, the authority has implemented a robust impairment policy that has identified an average impairment of 0.39% of general debtors. The authority is therefore satisfied the following impairment methodology (adjusted to include consideration of all debts irrespective of whether they are overdue) adequately covers the impairment requirement of IFRS9, though the methodology is reviewed annually:

Age of Debt	Firm Recovery Arrangements in Place	Actively pursuing	Write Off	Impairment
0 – 364 days	Service to make appropriate impairment based on knowledge and judgement of the debt			
365 days +	No	Yes	No	Yes - 100%
365 days +	No	No	Yes	No
365 days + (payment plans)	Yes	Service to make appropriate impairment based on knowledge and judgement of the debt		

For trade receivables, which are reported net, such losses are net off against the gross amortised cost of the asset to reduce it's carrying amount in the Balance Sheet with the loss being recognised within the relevant service line of the continuing operations section of the Comprehensive Income and Expenditure Statement.

Impairment allowances for our lease receivables carried at amortised cost are recognised based on the general approach within IFRS9 using the probability of default approach.

Under this approach, the loss allowance has been calculated as [possibility of default (over next 12 months if no significant increase in credit risk has occurred; or lifetime, where significant increase in credit risk has occurred) x predicted % loss if a default takes place x carrying amount of loan]. Historically, there has never been a default on our lease receivables as the authority maintains a close relationship with the lessee. Regular reviews and meetings take place between both parties, as the lease arrangements are an integral part of the authority's elderly care provision, so the possibility of any future material default is unlikely.

For lease receivables, which are reported net, such losses (where material) are net off against the gross amortised cost of the asset to reduce its carrying amount in the Balance Sheet with the loss being recognised within the relevant service line of the continuing operations section of the Comprehensive Income and Expenditure Statement

On confirmation that the trade/lease receivables will not be collectable, the gross carrying value of the asset is written off against the associated allowance.

- Financial Assets Measures at Fair value Through Profit or Loss (FVPL)

Financial assets that are measured at FVPL 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. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services. Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

The authority does not carry any Financial Assets at Fair Value through Other Comprehensive Income.

Prior to 1st April 2019, there was an additional Available-for-sale classification for assets that had a quoted market price and/or did not have fixed or determinable payments.

- Available-for-sale Assets

Available-for-sale assets were recognised on the Balance Sheet when the Authority became a party to the contractual provisions of a financial instrument and were initially measured and carried at fair value. Where the asset had 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 were based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument.

Where there were no fixed or determinable payments, income was credited to the Comprehensive Income and Expenditure Statement when it became receivable by the Council. Assets classified as Available-for-sale were maintained in the Balance Sheet at fair value based on the instruments quoted market price.

Changes in fair value were balanced by an entry in the Available-for-Sale Reserve and the gain/loss was recognised in the Surplus or Deficit on Revaluation of Available-for Sale Financial Assets. The exception was where impairment losses had been incurred - these were 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 were identified as impaired because of a likelihood arising from a past event that payments due under the contract would not be made or fair value fell below cost, the asset was written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Any gains and losses that arose on the de-recognition of the asset were 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 could not be measured reliably, the instrument was carried at cost (less any impairment losses).

This classification was removed from 31st March 2019, so is not included in the authorities accounts for 2018/19 but has been reported in the 2017/18 comparatives. Note 34: Financial Instruments provides further detail of the reclassification.

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; or

Level 3 – unobservable inputs for the asset or liability.

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

12 Government Grants and Contributions (Including Donated Assets)

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

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

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

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

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

13 Leases

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

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

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

The Authority as Lessee

Finance Leases

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

Lease payments are apportioned between:

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

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

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

Operating Leases

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

The Authority as Lessor

Finance Leases

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

Lease rentals receivable are apportioned between:

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

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

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

Operating Leases

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

14 Property, Plant and Equipment (PPE)

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

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

- Land;
- Buildings;
- Vehicles and Equipment;
- Infrastructure (mainly road improvements);
- 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
Assets under construction	Historic cost	Cost
Surplus assets	Fair value	Highest and Best Use

If there is no market-based evidence of value because of the specialist nature of the asset, the Authority estimates its current 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 current 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 2018/19, 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 65 within our boundary);
- Voluntary controlled (56 within our boundary);
- Voluntary aided (32 within our boundary); and
- Foundation (7 within our boundary).

The remaining type of state school, an Academy, (of which there are 101 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 school's 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 school's 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 50.

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 unusable 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 and Long-Term Contracts

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.

Long-term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the consideration allocated to the performance obligations satisfied based on the goods or services transferred to the service recipient during the financial year.

27 Foreign Currency Translation

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

28 Events after the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts 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 applied to capital receipts received during the period 1st April 2016 to 31st March 2019 but has since been extended for a further three years (until 31 March 2022).

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 2018/19 can be found in the Adjustments between accounting basis and funding basis under regulation note to the accounts (page 102).

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 (based on the authorities' internal management reporting structure) 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 2018			Comprehensive Income and Expenditure Statement for the year ended 31 March	31 March 2019			
Gross Expenditure (Restated)	Gross Income (Restated)	Net Expenditure (Restated)		Gross Expenditure	Gross Income	Net Expenditure	Notes
£millions	£millions	£millions		£millions	£millions	£millions	
			Continuing Operations				
218.622	-79.076	139.546	Adults and Health	223.427	-95.559	127.868	6
67.833	-3.470	64.363	Children and Families	74.167	-5.105	69.062	6
79.505	-52.398	27.107	Children and Learning	82.234	-56.670	25.564	6
160.600	-66.281	94.319	Economic and Community Infrastructure	150.926	-68.820	82.106	6
22.831	-22.609	0.222	Public Health	22.355	-22.075	0.280	6
36.257	-6.199	30.058	Support Services & Other Corporate Spending	47.698	-7.966	39.732	6
228.534	-204.148	24.386	Individual Schools Budget	229.416	-199.505	29.911	6
814.182	**-434.181**	**380.001**	**Surplus (-) / Deficit on Continuing Operations**	**830.223**	**-455.700**	**374.523**	
19.453	-	19.453	Other operating expenditure	38.410	-	38.410	12
49.607	-8.211	41.396	Financing and investment income and expenditure	48.885	-9.303	39.582	13
-	-378.866	-378.866	Taxation and non-specific grant income	-	-398.207	-398.207	14
883.242	**-821.258**	**61.984**	**Surplus (-) or Deficit on Provision of Services**	**917.518**	**-863.210**	**54.308**	
			Items that will not be reclassified to the (Surplus) or Deficit on the Provision of Services				
		-11.403	Surplus (-) or Deficit on revaluation of non-current assets			-13.257	15
		-71.117	Remeasurement gains (-) / losses on pension assets/liabilities			-44.537	52
			Items that may be reclassified to the (Surplus) or Deficit on the Provision of Services				
		0.366	Surplus (-) or Deficit on revaluation of available for sale financial assets			-	43
		-82.154	**Other Comprehensive Income and Expenditure**			**-57.794**	
		-20.170	**Total Comprehensive Income and Expenditure**			**-3.486**	

Note – the prior year figures in the above table have been represented to report services in line with what has been presented to council members in the outturn reporting. Note 1 provides an analysis of the movement.

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 2018 & 2019	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 2017	42/43	**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	15/52	-	-	-	-	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	10	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 carried forward	42/43	**42.895**	**3.701**	**8.521**	**55.117**	**-223.722**	**-168.605**
Movement in Reserves during 2018/19							
Surplus or deficit (-) on provision of services		-54.308	-	-	-54.308	-	-54.308
Other Comprehensive Income and Expenditure	15/52	-	-	-	-	57.794	57.794
Total Comprehensive Income and Expenditure		**-54.308**	**-**	**-**	**-54.308**	**57.794**	**3.486**
Adjustments between accounting basis & funding basis under regulations	10	73.064	2.365	-1.531	73.898	-73.898	-
Increase/Decrease (-) in Year		**18.756**	**2.365**	**-1.531**	**19.590**	**-16.104**	**3.486**
Balance as at 31 March 2019	42/43	**61.651**	**6.066**	**6.990**	**74.707**	**-239.826**	**-165.119**

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

Balance Sheet as at 31 March 2019

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

31 March 2018 (Restated) £millions	Balance Sheet	31 March 2019 £millions	Notes
909.569	Property, Plant & Equipment	909.920	25
1.934	Heritage assets	1.934	32
4.390	Intangible Non-Current assets	3.123	26
9.734	Long term investments	14.883	34
22.538	Long term debtors	20.707	34
948.165	**Long term assets**	**950.567**	
174.336	Short term Investments	145.509	34
1.709	Assets held for sale	0.877	28
7.605	Inventories	7.884	36
58.474	Short term debtors	53.260	37
26.022	Cash and cash equivalents	38.451	44
268.146	**Current Assets**	**245.981**	
-78.862	Short term creditors	-68.085	38
-1.809	Revenue Grants/Contributions Receipts in Advance	-1.429	41
-81.697	Capital Grants/Contributions Receipts in Advance	-70.391	41
-4.485	Long term borrowing repayable < I year *	-4.356	34
-6.597	Provisions	-7.225	40
-8.383	Short term borrowing	-7.480	34
-1.973	Overdraft	-2.884	44
-183.806	**Current Liabilities**	**-161.850**	
-0.256	Provisions	-0.256	40
-331.650	Long term borrowing repayable > I year *	-326.188	34
-845.348	Other long term liabilities	-843.642	39
-7.533	Revenue Grants/Contributions Receipts in Advance	-9.265	41
-16.323	Capital Grants/Contributions Receipts in Advance	-20.466	41
-1,201.110	**Long term liabilities**	**-1,199.817**	
-168.605	**Net Assets**	**-165.119**	
55.117	Usable reserves	74.707	42
-223.722	Unusable Reserves	-239.826	43
-168.605	**Total Reserves**	**-165.119**	

* The Long-term borrowing values have been updated to reclassify the accrued interest (that was included within the long-term balance) as a short-term liability. The total of the long-term borrowing remains unchanged, only the split between short and long-term has been amended.

Sheila Collins
Interim Finance Director
(Chief Finance Officer)

30th July 2019

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.

2017/18 £millions		2018/19 £millions	Notes
61.984	Net surplus (-) or deficit on the provision of services	54.308	
-110.496	Adjustments to net surplus or deficit on the provision of services for non cash movements	-135.876	45
91.304	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	105.130	45
42.792	Net cash flows from Operating Activities	**23.562**	45
-41.117	Investing Activities	-42.265	46
2.741	Financing Activities	7.185	47
4.416	**Net increase (-) or decrease in cash and cash equivalents**	**-11.518**	
28.465	**Cash and cash equivalents at the beginning of the reporting period**	**24.049**	
24.049	**Cash and cash equivalents at the end of the reporting period**	**35.567**	44

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

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

Notes to the core financial statements

Note 1: Prior-period restatement

Comprehensive Income & Expenditure Statement – Change In Service Reporting

We are required to report our service segments based on the way in which we operate and manage our services. The reporting format means that the Continuing Operations section of the Comprehensive Income and Expenditure Statement supports accountability and transparency as it reflects the way in which services operate and performance is managed.

In 2018/19, the Authority has changed the way it reports some of its service headings to Cabinet. Although this is not a change in accounting policy nor is it a misstatement, for the purposes of clear comparatives the Comprehensive Income and Expenditure Statement has been restated.

The final deficit position for continuing operations remains unchanged when compared to the 2017/18 position reported in last year's accounts. The changes can be described as:

- In most instances the service headings reported have been consolidated to the highest service level. For example; Learning Disabilities, Adults Commissioning and Adults Operations are now all reported as Adults.

- Property services are now managed and reported within Economic and Community Infrastructure, where previously it was part of Support Services & Other Corporate Spending.

- Trading units continue to be reported as other operating expenditure, not as a separate service. Therefore, although Dillington trading now sits within Children and Learning, there is no movement in the Comprehensive Income and Expenditure Statement for this.

The restatement movement can be seen in the following table:

Comprehensive Income and Expenditure Statement for the year ended 31 March 2018	As reported in the 2017/18 accounts 31 March 2018				As Restated 31 March 2018		
	Gross Expenditure £millions	Gross Income £millions	Net Expenditure £millions	Change in Internal Reporting Classifications £millions	Gross Expenditure £millions	Gross Income £millions	Net Expenditure £millions
Continuing Operations							
Adults and Health - Operations	121.255	-46.054	75.201	-75.201	-	-	-
Children & Families - Operations	67.833	-3.470	64.363	-64.363	-	-	-
Learning Disabilities	89.082	-32.722	56.360	-56.360	-	-	-
Somerset Waste Partnership	46.460	-19.633	26.827	-26.827	-	-	-
Adults and Health - Commissioner	8.285	-0.300	7.985	-7.985	-	-	-
Children & Learning - Commissioning Central	79.505	-52.398	27.107	-27.107	-	-	-
Highways	21.301	-1.059	20.242	-20.242	-	-	-
ECI Other Services	71.527	-43.170	28.357	-28.357	-	-	-
Adults and Health	-	-	-	139.546	218.622	-79.076	139.546
Children and Families	-	-	-	64.363	67.833	-3.470	64.363
Children and Learning	-	-	-	27.107	79.505	-52.398	27.107
Economic and Community Infrastructure	-	-	-	94.319	160.600	-66.281	94.319
Public Health	22.831	-22.609	0.222	-	22.831	-22.609	0.222
Support Services & Other Corporate Spending	57.569	-8.618	48.951	-18.893	36.257	-6.199	30.058
Individual Schools Budget	228.534	-204.148	24.386	-	228.534	-204.148	24.386
Surplus (-) / Deficit on Continuing Operations	**814.182**	**-434.181**	**380.001**	**-**	**814.182**	**-434.181**	**380.001**
Other operating expenditure	19.453	-	19.453	-	19.453	-	19.453
Financing and investment income and expenditure	49.607	-8.211	41.396	-	49.607	-8.211	41.396
Taxation and non-specific grant income	-	-378.866	-378.866	-	-	-378.866	-378.866
Surplus (-) or Deficit on Provision of Services	**883.242**	**-821.258**	**61.984**	**-**	**883.242**	**-821.258**	**61.984**

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

The Authority has yet to adopt the following accounting standards:

- Amendments to IAS 40 Investment Property: Transfers of Investment Property

These amendments confirm that an entity must transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. We do not expect these amendments to have a material impact on our accounts when they are applied prospectively from 1st April 2019.

- Annual Improvements to IFRS Standards 2014 – 2016 Cycle

The primary objective of these improvements is to enhance the quality of standards, by amending existing International Financial Reporting Standards and International Accounting Standards 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.

- IFRIC 23 Uncertainty over Income Tax Treatments

This interpretation applies where there is uncertainty over the acceptable income tax treatment of an item, for example, whether an item of income is taxable or not. We do not expect these amendments to have a material impact on our accounts when they are applied from 1st April 2019.

- Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation

This standard amends IFRS9 to make clear that amortised cost should be used where prepayments are substantially lower than the unpaid principal and interest. The Council has no loans to whom this will apply.

- IFRS 16 Leases

This standard will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities. CIPFA/LASAAC have deferred implementation of IFRS16 for local government until 1 April 2020. The estimated impact of this standard will be reported in the 2019/20 Statement of Accounts.

Note 3: 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;

- There Authority has a number of pooled budgets with varying arrangements, as follows:

    - The Integrated Community Equipment service is an aligned budget in that Somerset County Council contract with the provider. Both Somerset County Council and Somerset Clinical Commissioning Group can procure the equipment they require (unanimous consent from both parties is not required, so no joint control).
    - The Learning Disabilities Service is a pool hosted by Somerset County Council. The Somerset Clinical Commissioning Group makes contributions to the pool, which are then used to purchase Learning Disability services. Funding decisions are made by Somerset County Council based on the eligibility criteria which is set nationally. Therefore, it is an aligned budget, with expenditure controlled by Somerset County Council.
    - The Carers Pooled Budget is used to jointly commission the provision of Carers Support Services. It is a joint operation with both Somerset County Council and Somerset Clinical Commissioning Group.

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

Section 75 of the National Health Service Act 2006. Under this Section 75 agreement there are three funds hosted by whichever body undertook the contracting arrangements. Having assessed the arrangement the Authority has determined that Funds 2 and 3 are hosted by ourselves, with Fund 1 being hosted by the Clinical Commissioning Group. Details of how this assessment has affected the transactions the Authority reports in its accounts can be found in Note 17 (page 107)

- The requirement for us to consider the value of our surplus assets at their 'highest and best use' has resulted in a valuation technique comprising of three input levels that indicate the degree of observable and unobservable inputs used to estimate their FV. The amount of estimation varies depending on the level identified by the Authority's valuation experts. Further detail on the fair value of the Authority's surplus assets can be found in Note 29 (page 122).

- The Authority has provided a guarantee to the Somerset County Council Pension Fund for the South West Audit Partnership (SWAP) and Discovery in relation to the pension deficit of our ex-employees who transferred to SWAP and Dimensions Somerset SEV (the trading name for Discovery). The guarantee indemnifies the Fund should SWAP or Dimensions 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 (HotSW LEP) and was payable to the Authority as the accountable body for the Local Growth Deal. During the Authority's Group Accounts review, it was concluded that the HotSW 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. HotSW LEP funding received during 2018/19 where other HotSW LEP partners hold the return obligations have not been recognised in the Authority's accounts.

- The Authority has reviewed its policy for recognising loss allowances on its trade receivable balances; and has deemed its current impairment methodology as sufficient to meet the impairment requirements of IFRS9. The authority's debt management process (explained further in Note 35) has meant the impact of credit risk on the authority has been minimal in recent years and there is no expectation this will worsen in the future.

- The Authority's significant contracts have been reviewed and no material embedded finance leases or service concessions were found. The Authority does have one Private

Finance Initiative (PFI) contract for the provision of schools; Note 31 (page 129) provides further detail;

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

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

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

The items in the Balance Sheet at 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Depreciation	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it more difficult to sustain spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge would increase by approximately £3.603 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 55. 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 £4.499m and subsequent depreciation would increase by £0.136m
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 pension's 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 £34.543 million (see the sensitivity analysis in note 52 for other potential movements to the pensions liability as a result of changes in actuarial assumptions).

Doubtful Debt Impairment	As at 31 March 2019, the Council had an outstanding balance of short-term debtors totalling £58.428m. Against this debtor balance there is an impairment allowance of £10.115m. It is not certain that this impairment allowance would be sufficient as the Council cannot assess with certainty which debts will be collected or not.	An understatement of doubtful debts would lead to a future adjustment being reflected. The impairment allowances held are based on policies adapted to the nature of the debt and service area, historic experience and success rates experienced in collection. If collection relates were to deteriorate then the Council would need to review its policies on the calculation of its impairment allowance for doubtful debts.
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 £1.799m.
PFI & Similar Arrangements	PFI and similar arrangements have been considered to have an implied finance lease within the arrangement. In assessing the lease's, 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 £0.141m contingent rent and an additional £0.339m of service costs being charged in the Authority's accounts over the remainder of the PFI contract.
Fair Value Measurement	When the fair values of financial assets and financial liabilities cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using valuation techniques (e.g. 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.	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

	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 138.	described further in note 34 on page 138.
Britain leaving the European Union: asset values and pension liability	There is a high level of uncertainty about the implications of Britain leaving the European Union. At the current time there are three possible scenarios: a 'no deal' Brexit, an agreement with a transition period and an extension to EU membership of unknown length. It is not possible to predict which path will be taken and whether asset values and the discount rate will consequently change. The assumption has been made that this will not significantly impair the value of the Council's assets or change the pension fund discount rate. However, this assumption needs to be revisited and reviewed regularly.	Higher impairment allowances may need to be charged in the future if asset values fall. If the discount rate changes, the size of the net pension liability will also vary.

Note 5: Events after the Balance Sheet Date

One Voluntary Aided (VA), two Voluntary Controlled (VC) and three Community schools converted to Academy status between 1st April 2019 and 30th July 2019. The conversion of these schools are likely to reduce the Authority's balance sheet by a further £14.638m in respect to the assets transferring with them. Their reserves also move with them.

Note 6: Expenditure & Funding Analysis

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

2018/19

Expenditure & Funding Analysis for the year ended 31 March 2019	Directorate Total as reported for resource management	Adjustment to arrive at the net amount chargeable to the General Fund balance	Net Expenditure Chargable to the General Fund	Adjustments between Funding and Accounting basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£millions	£millions	£millions	£millions	£millions
Adults and Health	132.186	-9.659	122.527	5.341	127.868
Children & Families	63.697	-0.028	63.669	5.393	69.062
Children & Learning	23.706	0.796	24.502	1.062	25.564
Economic and Community Infrastructure	61.973	-1.187	60.786	21.320	82.106
Public Health	0.386	-0.250	0.136	0.144	0.280
Support Services & Other Corporate Spending	29.208	-5.889	23.319	16.413	39.732
Individual Schools Budget	-	2.575	2.575	27.336	29.911
Surplus (-) / Deficit on Continuing Operations	**311.156**	**-13.642**	**297.514**	**77.009**	**374.523**
Other Income & Expenditure	-317.065	0.795	-316.270	-3.945	-320.215
Surplus (-) or Deficit on Provision of Services	**-5.909**	**-12.847**	**-18.756**	**73.064**	**54.308**
Opening General Fund Balance at 31 March 2018			42.895		
Add Surplus (-) on General Fund in Year			-18.756		
Closing General Fund Balance at 31 March 2019			**61.651**		

2017/18

Expenditure & Funding Analysis for the year ended 31 March 2018	Directorate Total as reported for resource management	Change in Internal Reporting Classifications	Adjustment to arrive at the net amount chargeable to the General Fund balance	Net Expenditure Chargable to the General Fund balance	Adjustments between Funding and Accounting basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£millions	£millions	£millions	£millions	£millions	£millions
Children & Families - Operations	60.579	-60.579	-	-	-	-
Learning Disabilities - Operations	51.343	-51.343	-	-	-	-
Adults & Health - Commissioner	7.821	-7.821	-	-	-	-
Children & Learning - Commissioning Central	23.853	-23.853	-	-	-	-
Adults and Health - Operations	73.233	-73.233	-	-	-	-
Adults and Health	-	132.397	4.813	137.210	2.336	139.546
Children & Families	-	60.579	-0.339	60.240	4.123	64.363
Children & Learning	-	23.853	2.323	26.176	0.931	27.107
ECI Other Services	61.127	3.779	0.551	65.457	28.862	94.319
Public Health	0.136	-	-0.012	0.124	0.098	0.222
Support Services & Corporate Spending	36.760	-3.779	-3.808	29.173	0.885	30.058
Individual Schools Budget	-	-	0.290	0.290	24.096	24.386
Surplus (-) / Deficit on Continuing Operations	**314.852**	**-**	**3.818**	**318.670**	**61.331**	**380.001**
Other Income & Expenditure	-312.672	-	0.739	-311.933	-6.084	-318.017
Surplus (-) or Deficit on Provision of Services	**2.180**	**-**	**4.557**	**6.737**	**55.247**	**61.984**
Opening General Fund Balance at 31 March 2018				49.632		
Less Deficit on General Fund in Year				6.737		
Closing General Fund Balance at 31 March 2019				**42.895**		

Note 7: Notes to the Expenditure & Funding Analysis

Adjustments between Funding and Accounting Basis

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.

2018/19

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	3.709	1.630	0.002	5.341
Children & Families	2.318	3.074	0.001	5.393
Children & Learning	0.818	0.292	-0.048	1.062
Economic and Community Infrastructure	19.451	1.869	-	21.320
Public Health	0.010	0.134	-	0.144
Support Services & Other Corporate Spending	9.006	7.609	-0.202	16.413
Individual Schools Budget	22.053	7.399	-2.116	27.336
Net Cost of Services	**57.365**	**22.007**	**-2.363**	**77.009**
Other Income & Expenditure				
Other operating expenditure	37.611	0.000	-	37.611
Financial and investment income and expenditure	-1.367	21.736	-0.048	20.321
Taxation and non-specific grant income and expenditure	-62.048	-	0.171	-61.877
General Fund (Surplus)/Deficit	**31.561**	**43.743**	**-2.240**	**73.064**

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	0.232	2.113	-0.009	2.336
Children & Families	0.625	3.497	0.00	4.123
Children & Learning	0.318	0.625	-0.012	0.931
Economic and Community Infrastructure	26.184	2.678	-	28.862
Public Health	0.010	0.088	-	0.098
Support Services & Other Corporate Spending	4.574	-3.640	-0.049	0.885
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**

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 Financing and investment income and expenditure line for loan premium payable in the year, but charged to the General Fund over the life of the derecognised loan in line with statutory regulations;
- 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.

Adjustments to arrive at the net amount chargeable to the General Fund balance

These adjustments mostly relate to the service contributions to/from Earmarked reserves reported for resource management that need to be excluded when determining the Net Expenditure Chargeable to the General Fund. The adjustments also include minor accounting adjustments not reported for resource management.

Note 8a: 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	2017/18 £ millions	2018/19 £ millions
Employee expenses	282.019	268.292
Other service expenses	422.922	450.694
Support service recharges	32.289	35.367
Depreciation, amortisation and impairment	83.863	82.479
Interest payments (including pension interest cost)	42.696	41.134
Loan premium	-	1.142
Precepts & levies	0.783	0.799
Loss on revaluation of current assets held for sale	1.898	0.018
Gain or Loss on disposal of fixed assets	16.772	37.593
Total Expenditure	**883.242**	**917.518**
External fees & charges	-55.279	-59.298
Other service income	-70.586	-82.558
Interest and investment income	-2.561	-3.009
Income from council tax/ NNDR/ SRA	-285.252	-304.467
Government grants and contributions	-407.580	-413.878
Total Income	**-821.258**	**-863.210**
Surplus or deficit on the provision of services	**61.984**	**54.308**

Note 8b: Revenue from Contracts with Service Recipients

Following a review of all Fees & Charges income, the Authority has identified material contractual arrangements in relation to Deferred Payments (where care users use the value of their home to help pay care home costs) and other client contributions (based on an assessment of how much care users must contribute towards the cost of their care).

The following amounts were recognised as income within the Continuing Operations line of the Comprehensive Income and Expenditure Statement for these contracts.

2017/18 £millions		2018/19 £millions
-29.779	Client contributions	-27.786
-2.621	Deferred Payments	-1.933
-32.400	**Total Income**	**-29.719**

There were no material arrangements identified with performance obligations, so the income has been recognised on the date the Authority provided the goods or services for all contracts with service recipients. Further details of the income received from the authority's other contracts are included within the External fees & charges line of Note 8a: Expenditure and Income Analysed by Nature. The following amounts were included in the Balance Sheet for contracts with service recipients, in relation to the material contracts identified:

2017/18 £millions		2018/19 £millions
4.127	Deferred Payments, which are included within long-term debtors (Note 34)	4.318
0.649	Client Contributions, which are included within short-term debtors (Note 37)	0.652
4.776	**Total Included in Net Assets**	**4.970**

There were no impairment losses recognised on receivables arising from the authority's contracts with service recipients during the year.

Note 9: Segmental Reporting

Segmental Assets

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

Segmental Analysis - Outstanding Debt	2017/18 £million	2018/19 £million
Adults and Health	2.333	7.204
Children & Families	0.489	0.064
Children & Learning	0.564	0.212
Economic and Community Infrastructure	5.095	11.390
Public Health	0.028	0.012
Support Services & Other Corporate Spending	1.513	0.610
Individual Schools Budget	0.059	0.050
Trading (included within Financial and Investment Income and Expenditure	0.566	0.226
Total - as reported at Outturn	**10.647**	**19.768**

Reconciliation of segmental debt to the total short term debtor reported in the Balance Sheet	2017/18 £million	2018/19 £million
Segmental Debt - as reported at Outturn	10.647	19.768
Debt - not reportable at Outturn:		
Collection Fund Debtor	8.391	9.405
Capital Debtors	9.377	4.172
Payments in Advance	16.625	4.947
VAT Debtor	6.046	3.290
Other year-end accrued debt	7.388	11.678
Short-term debtor - as reported in Balance Sheet	**58.474**	**53.260**

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.

2018/19

For the year ended 31 March 2019	Adults and Health £millions	Children & Families £millions	Children & Learning £millions	Support Services & Other Corporate Services £millions	Economic and Community Infrastructure £millions	Individual Schools Budget £millions	Traded Services £millions	Other Direct Services £millions	Total - Continuing Operations £millions
Revenue from external customers	-26.824	-0.280	-0.818	-2.820	-14.772	-7.519	-6.265	0.000	**-59.298**
Non Cash Items:									
Capital Charges (Depreciation etc)	0.768	2.216	0.752	4.804	44.758	28.866	0.287	1.170	**83.621**
IAS19 Employee Benefit adjustment	1.631	3.074	0.293	7.608	1.869	7.399	1.164	0.134	**23.172**

For the year ended 31 March 2019	Other Operating Expenditure £millions	Financing and Investment Income & Expenditure £millions	Total - Provision of Services £millions
IAS19 Employee Benefit adjustment		20.572	**20.572**
Interest Expense		20.562	**20.562**
Other Material Items			
Gain/Loss on Disposal of Non-Current Assets	37.593		**37.593**

2017/18

For the year ended 31 March 2018	Adults and Health - Operations (Restated) £millions	Children & Families (Restated) £millions	Children & Learning £millions	Support Services & Other Corporate Services (Restated) £millions	ECI Other Services (Restated) £millions	Individual Schools Budget £millions	Traded Services £millions	Other Direct Services (Restated) £millions	Total - Continuing Operations £millions
Revenue from external customers	-26.127	-0.190	-0.839	-1.915	-13.870	-7.165	-5.571	0.000	**-55.677**
Non Cash Items:									
Capital Charges (Depreciation etc)	0.247	0.635	0.318	0.595	53.416	26.377	0.136	2.139	**83.863**
IAS19 Employee Benefit adjustment	2.113	3.497	0.625	-3.640	2.678	7.833	1.225	0.088	**14.419**

The above table has been restated to align the segments with that which is now reported to management. This is in line with the restated Comprehensive Income & Expenditure Statement.

For the year ended 31 March 2018	Other Operating Expenditure £millions	Financing and Investment Income & Expenditure £millions	Total - Provision of Services £millions
IAS19 Employee Benefit adjustment		23.388	**23.388**
Interest Expense		19.308	**19.308**
Other Material Items			
(Gain)/Loss on Disposal of Non-Current Assets	16.772		**16.772**

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

2018/19

Adjustments between accounting basis and funding basis under regulations for the year ended 31 March 2019	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)	43.744	-	-
Council Tax and NDR (transferred to/(from) the Collection Fund Adj Account)	0.171	-	-
Fair Value Movement on Pooled Investment Funds (transferred to/(from) the Pooled Investment Funds Adj Account)	-0.150	-	-
Financial Instruments (transferred to/(from) the Financial Instrument Adj Account)	1.096	-	-
Holiday Pay (transferred to/(from) the Accumulated Absence Adj Account)	-2.216	-	-
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)	37.586	-	93.785
Total Adjustments to Revenue Resources	**80.231**	**-**	**93.785**
Adjustments between Revenue and Capital Resources:			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	-11.590	11.590	-
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	0.246	-0.246	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	-2.744	-	-
Flexible Use of Capital Receipts directive (transfer to the Capital Adjustment Account)	8.600	-	-
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	-1.679	-	-
Total Adjustments between Revenue and Capital Resources	**-7.167**	**11.344**	**-**
Adjustments to Capital Resources:			
Use of the Capital Receipts Reserve to finance capital expenditure	-	-0.409	-
Use of the Capital Receipts Reserve to finance the Flexible Use of Capital Receipts directive	-	-8.600	-
Application of capital grants to finance capital expenditure	-	-	-95.316
Cash payments in relation to deferred capital receipts	-	0.030	-
Total Adjustments to Capital Resources	**-**	**-8.979**	**-95.316**
Total Adjustments	**73.064**	**2.365**	**-1.531**

2017/18

Adjustments between accounting basis and funding basis under regulations for the year ended 31 March 2018	Usable Reserves General Fund - Schools & Other £millions	Capital Receipts Reserve £millions	Capital Grants & Contributions Unapplied £millions
Adjustments to Revenue Resources:			
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:			
Pension Costs (transferred to/(from) the Pensions Reserve)	37.807	-	-
Council Tax and NDR (transferred to/(from) the Collection Fund Adj Account)	1.800	-	-
Fair Value Movement on Pooled Investment Funds (transferred to/(from) the Pooled Investment Funds Adj Account)	-	-	-
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**	**0.000**
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**

Note 11: Transfers to/from Earmarked Reserves

This note shows the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund in 2018/19.

	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 £millions	Transfers Out 2018/19 £millions	Transfers In 2018/19 £millions	Net Movement 2018/19 £millions	Balance at 31 March 2019
General Fund:									
Operating Accounts	-0.436	-0.244	0.217	-0.027	-0.463	-0.066	-	-0.066	-0.529
Economic Development Fund	0.482	-0.092	0.161	0.069	0.551	-0.072	-	-0.072	0.479
Reserves for capital purposes	3.459	-1.064	0.300	-0.764	2.695	-0.147	-	-0.147	2.548
Invest to Save Fund	0.078	-0.012	0.301	0.289	0.367	-0.018	-	-0.018	0.349
Carers Pooled Budget	0.033	-0.033	-	-0.033	-	-	-	-	-
LD Equalisation Reserve	-	-4.910	-	- 4.910	- 4.910	-	4.910	4.910	-
Somerset Drug & Alcohol	0.135	-0.009	-	-0.009	0.126	-	0.050	0.050	0.176
Public Health Earmarked	1.357	-	-	-	1.357	-	0.199	0.199	1.556
Repairs and Maintenance Fund (inc BMIS)	-2.501	-0.888	-	-0.888	-3.389	-0.073	0.526	0.453	-2.936
Supply Mutual Fund Reserve	0.512	-	0.012	0.012	0.524	- 0.009	-	-0.009	0.515
BSF Bridgwater Equaliation Reserve	4.799	- 1.014	0.912	-0.102	4.697	-	0.933	0.933	5.629
Futures for Somerset	-	-	0.084	0.084	0.084	-	0.030	0.030	0.114
Elections	0.733	- 0.691	-	- 0.691	0.042	-	0.253	0.253	0.295
Hinkley Project	0.023	-	-	-	0.023	-	-	-	0.023
Somerset Rivers Authority	0.521	-0.109	-	-0.109	0.412	-0.073	-	-0.073	0.339
Flood Recovery & 20 year plan	1.063	-0.414	-	-0.414	0.649	-0.483	-	-0.483	0.166
Total Transport Pilot Fund	0.240	-0.093	-	-0.093	0.147	-0.016	-	-0.016	0.131
Sustainable Drainage Funding	0.071	-	-	0.000	0.071	- 0.019	-	- 0.019	0.052
Library renewal book fund	0.154	-0.154	-	-0.154	-	-	0.059	0.059	0.059
Superfast Broadband	0.197	-0.142	-	-0.142	0.055	-	-	-	0.055
SWP - WDA	0.809	-0.508	-	-0.508	0.301	-0.100	-	-0.100	0.201
Environment Commuted Sums Reserve	1.227	- 0.154	0.007	-0.147	1.080	0.212	-	0.212	1.292
Local Enterprise Partnership (LEP)	2.776	-1.235	0.666	-0.569	2.207	-0.591	0.404	-0.187	2.020
SRA Precept 2016/17	1.883	-	0.961	0.961	2.844	-	0.883	0.883	3.727
SEN reform grant	0.184	-0.003	-	-0.003	0.181	-0.170	-	-0.170	0.011
SAPHTO Funds	0.016	-0.009	-	-0.009	0.007	-	0.019	0.019	0.026
Youth Bank	0.012	-0.002	-	-0.002	0.010	-0.010	-	-0.010	-
Schools CLPs	0.535	-0.535	-	-0.535	-	-	-	-	-
Various DSG (Including Schools Compact)	-2.779	-2.679	1.574	-1.105	-3.884	-3.079	0.261	-2.818	-6.702
S106 funds	0.226	-0.007	0.107	0.100	0.326	-0.043	0.188	0.145	0.471
Insurance Fund Reserve	1.308	-	2.457	2.457	3.765	-	0.321	0.321	4.086
Directorate Budget Carry Forwards	-8.982	-22.984	24.911	1.927	-7.055	-16.444	29.410	12.966	5.911
Parking Services	-	-	-	-	-	-	0.333	0.333	0.333
West Somerset Opportunities Fund reserve	-	-	-	-	-	-	1.267	1.267	1.267
WSOA Essential Life Skills reserve	-	-	-	-	-	-	0.020	0.020	0.020
Adult Social Care Reserve	-	-	-	-	-	-	2.309	2.309	2.309
Adults & Health System Reserve	-	-	-	-	-	-	2.500	2.500	2.500
Total excluding School Balances	**8.135**	**-37.985**	**32.670**	**-5.315**	**2.820**	**-21.201**	**44.875**	**23.674**	**26.494**
Balances held by schools under a scheme of delegation	21.340	-19.627	17.433	-2.194	19.146	-17.434	15.756	-1.678	17.468
Total	**29.475**	**-57.612**	**50.103**	**-7.509**	**21.966**	**-38.635**	**60.631**	**21.996**	**43.962**

Note 12: Other Operating Expenditure

2017/18 £millions		2018/19 £millions
16.772	(Gain)/losses on the disposal of non-current assets	37.593
1.898	Loss on the revaluation of current assets held for sale	0.018
	Levies:	
0.669	- Environment Agencies	0.683
0.114	- Devon and Severn IFCA	0.116
19.453		**38.410**

The loss on disposal of non-current assets during 2018/19 was predominantly due to schools converting to academy status. This was partially offset by the sale of various land, building and vehicles.

Note 13: Financing and Investment Income and Expenditure

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

2017/18 £millions		2018/19 £millions
19.308	Interest payable and similar charges	20.562
23.388	Net pensions interest cost (on the defined liability)	20.572
-2.561	Interest receivable and similar income	-3.009
1.261	Deficit from trading activities (see note 16)	1.457
41.396		**39.582**

Note 14: Taxation and Non-Specific Grant Income

2017/18 £millions		2018/19 £millions
-217.487	Council Tax income	-232.860
-65.290	National Non-Domestic Rates	-69.100
-2.475	Somerset Rivers Authority Precept	-2.507
-43.801	Non-ringfenced government grants	-31.692
-49.813	Capital grants and contributions	-62.048
-378.866		**-398.207**

Note 15: Surplus or deficit on revaluation of fixed assets

2017/18 £millions		2018/19 £millions
-22.556	Gains credited to the Revaluation Reserve	-33.872
11.153	Losses charged to the Revaluation Reserve	20.615
-11.403		-13.257

Note 16: Trading Operations

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

2017/18 Total Expenditure £millions	2017/18 Turnover (Income) £millions	2017/18 Surplus (-) or deficit £millions	Trading unit	2018/19 Total Expenditure £millions	2018/19 Turnover (Income) £millions	2018/19 Surplus (-) or deficit £millions
1.723	-1.408	0.315	Dillington House	1.778	-1.262	0.516
24.853	-23.907	0.946	Support Services for Education	23.101	-22.160	0.941
26.576	**-25.315**	**1.261**	**Surplus (-) or deficit on trading activities**	**24.879**	**-23.422**	**1.457**

This above is the position as defined by our accounting regulations and therefore includes accounting costs such as depreciation and IAS19 charges. The surplus/deficit reported to management as part of the 2018/19 outturn is:

- Dillington: £0.437m (deficit)
- Support Services for Education: £0.371m (surplus)

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 and through offering B&B accommodation and restaurant services to a wider public Dillington intends to grow its customer base and generate additional income.

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

Note 17: Pooled Budgets

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

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

2017/18 £millions	Integrated Community Equipment Service (previously known as the Joint Equipment Service)	2018/19 £millions
	Income from:	
-1.282	Adults and Health Service	-1.496
-0.197	Children and Learning Service	0.000
-1.257	Somerset Clinical Commissioning Group (Including Continuing Healthcare Income)	-1.351
-1.269	Other Grant Income	-1.663
-4.005	Total income	-4.510
	Less the following spending:	
3.732	Equipment, delivery costs, minor work	4.229
0.099	Management and administration	0.098
3.831	Total spending	4.327
-0.174	**Overspending or underspending (-)**	**-0.183**

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

2017/18 £millions	Learning Disabilities Service	2018/19 £millions
	Income from:	
-60.115	Adults and Health Service	-58.046
-20.322	Somerset Clinical Commissioning Group	-21.779
0.000	Somerset Partnership	
-5.490	Income from charges and grant income	-6.077
-85.927	Total income	-85.902
	Less the following spending:	
34.848	Residential services	33.269
29.519	Supported housing	32.048
8.825	Day services	8.936
15.822	Domiciliary Care	15.768
1.810	Community teams	1.780
90.824	Total spending	91.801
4.897	**Overspending or underspending (-)**	**5.899**

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.

2017/18 £millions	Carers	2018/19 £millions
	Income from:	
-0.226	Adults and Health Service	-0.226
-0.231	Somerset Clinical Commissioning Group	-0.231
-0.033	Earmarked Reserve Drawdown	-
-0.490	Total income	-0.457
	Less the following spending:	
0.443	Universal Carers Support Service	0.369
0.027	Carers Support Worker Salary/Running Costs	0.027
0.048	CAMHS Carers Assessment Workers	0.048
0.518	Total spending	0.444
0.028	**Overspending or underspending (-)**	**-0.013**

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 2018/19 through a signed agreement under Section 75 of the National Health Service Act 2006. Somerset County Council received additional funding in 2018/19 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 £56.929m 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 2018/19, 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	12.961	14.360	32.668
Scheme B				
Person-centered care	18.216	-	-	18.216
Scheme C				
Improved DToC Arrangements	-	-	2.000	2.000
Scheme D				
Housing Adaptions	-	-	4.045	4.045
Total per Fund	**23.563**	**12.961**	**20.405**	**56.929**

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 18/19 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 £12.961m. 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 £20.405m. The fund includes contributions from the County Council only, which have been paid to providers contracted to support the Housing Adaptions schemes, £4.045m, as well as a contribution to improve DToC arrangements, £2.000m, and the remaining improved/new Better Care Fund, £14,360m. 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.
In terms of accounting entries all expenditure incurred as part of this fund is accounted for by the County Council.

Note 18: Members' Allowances

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

2017/18 £millions		2018/19 £millions
0.594	Basic Allowance	0.605
0.229	Special Responsibility Allowance	0.243
0.059	Travel and Subsistence Expenses	0.054
0.012	Payments to Co-optees	0.012
0.894		**0.914**

Note 19: Senior Officers' Remuneration

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

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

Table 1 – Staff paid more than £50,000 (shown in £5,000 bands) for the financial year ended 31 March 2019

2017/18 Number of employees			2018/19 Number of employees	
Schools	Non-schools	Employee pay bands	Schools	Non-schools
75	36	£50,000 to £54,999	65	41
46	10	£55,000 to £59,999	51	11
21	11	£60,000 to £64,999	16	11
16	15	£65,000 to £69,999	15	20
7	7	£70,000 to £74,999	9	2
2	4	£75,000 to £79,999	3	5
1	3	£80,000 to £84,999	1	4
1	5	£85,000 to £89,999	1	4
2	-	£90,000 to £94,999	1	3
1	-	£95,000 to £99,999	1	-
-	5	£100,000 to £104,999	-	1
-	2	£105,000 to £109,999	-	2
-	-	£110,000 to £114,999	-	1
1	2	£115,000 to £119,999	-	1
-	1	£120,000 to £124,999	-	1
-	-	£125,000 to £129,999	-	-
-	-	£130,000 to £134,999	-	1
-	1	£135,000 to £139,999	-	1
-	-	£140,000 to £144,999	-	-
-	-	£145,000 to £149,999	-	-
-	-	£150,000 to £154,999	-	-
-	1	£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 2017/18 and 2018/19.

In line with guidance, officers whose salary is £150,000 or more have been named.

Table 2 – Actual salary and benefits paid for the financial year ended 31 March 2019

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 2018/19 £	Employer's pension contributions £	Total wages and benefits including pension contributions 2018/19 £
Head of paid service:						
Patrick Flaherty	158,000	-	-	158,000	24,500	182,500
Statutory chief officers or those who report directly to the head of paid service:						
- Director of Public Health	110,600	-	-	110,600	16,000	126,600
- Director of Finance and Performance - *Note 1*	29,700			29,700	4,600	34,300
- Interim Finance Director - *Note 2*						
- Consultancy, July 2018 to February 2019	160,800			160,800	-	160,800
- Consultancy, March 2019	18,000			18,000	-	18,000
- Director of HR & Organisational Development	89,100	-	-	89,100	13,900	103,000
- Lead Commissioner Adults & Health	124,900			124,900	19,400	144,300
- Director of Children's Services	138,000	-	-	138,000	21,400	159,400
- Director and Lead Commissioner ECI	105,700	-	-	105,700	16,500	122,200
- Director of Corporate Affairs	89,500	-	-	89,500	14,000	103,500
- Business Change Strategic Manager	66,300			66,300	10,400	76,700
Non-statutory chief officers who are directly accountable to the local authority themselves						
Group Manager Community Governance / Monitoring Officer	75,900	-	-	75,900	11,800	87,700
County Solicitor	75,900	-	-	75,900	11,800	87,700

Note 1 – The member of staff employed as Director of Finance and Performance left the authority on 11th July. The annualised cost of the post (including employers pension) is £120,100.

Note 2 – The position of Director of Finance and Performance was not directly employed to from July to March. Instead, consultants were employed to fill an Interim Finance Director post for the remainder of the financial year. This post is not salaried and therefore individuals are not named.

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

Table 4 – Total number and value of exit packages for the financial year ended 31 March 2019

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	
	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18 £millions	2018/19 £millions
£0 - £20,000	45	48	99	141	144	189	0.970	1.100
£20,001 - £40,000	-	2	20	29	20	31	0.546	0.863
£40,001 - £60,000	1	-	12	4	13	4	0.639	0.207
£60,001 - £80,000	-	-	7	3	7	3	0.492	0.212
£80,001 - £100,000	-	-	-	5	-	5	-	0.437
£100,001 - £150,000	-	-	3	3	3	3	0.356	0.332
£150,001 - £200,000	-	-	1	-	1	-	0.186	0.000
£200,001 - £250,000	-	-	1	-	1	-	0.242	0.000

Note 20: Termination Benefits

The Authority terminated the contracts of 235 posts in 2018/19, incurring liabilities of £3.151 million. The redundancy total includes; £2.882 million payable to 188 staff who took voluntary redundancy or early retirement. A further £0.284 million was paid to 50 staff that were given compulsory redundancy.

The £3.151 million can be split between teaching and non-teaching staff as follows:

Non-teaching

The significant terminations, of £2.112 million, were due to Library service redesign (34) and service restructures in Early Intervention and Youth Support (73), support staff in schools (23) and senior management within the local authority (9). The remaining terminations are split across organisation wide reductions.

Teaching

The Authority terminated the contracts of 17 teachers in 2018/19, incurring liabilities of £0.156 million. These terminations can be split between compulsory redundancies (3) and other termination reasons (14).

Note 21: Fees for External Audit Services

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

2017/18 £millions		2018/19 £millions
	Fees payable to Grant Thronton, appointed under the Local Audit & Accountability Act 2014	
0.100	– Main audit	0.077
0.008	– Grant claims	0.016
-	– Additional audit fees in relation to 2017/18	0.011
(0.015)	– Rebate from Audit Commission for previous overcharge on audit fee	-
0.093		**0.104**

Note 22: Dedicated Schools Grant

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

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

Details of the deployment of DSG receivable for 2018/19 are shown in the following table:

	Central spending £millions	Individual Schools Budget £millions	Total £millions
Final Dedicated Schools Grant for 2018/19 - before Academy Recoupment	-59.149	-311.010	-370.159
Academy figure recouped for 2018/19	-	157.676	157.676
Total Dedicated Schools Grant after Academy recoupment for 2018/19	-59.149	-153.334	-212.483
Plus: Brought Forward from 2017/18	3.884	-	3.884
Less: Carry Forward to 2019/20 agreed in advance	-	-	-
Agreed initial budgeted distribution in 2018/19	-55.265	-153.334	-208.599
In year adjustments	-	-	-
Final budgeted distribution for 2018/19	**-55.265**	**-153.334**	**-208.599**
Less actual central expenditure	61.967	-	61.967
Less Actual ISB deployed to schools	-	153.334	153.334
Plus Local Authority contribution for 2018/19	-	-	-
Carry-forward to 2019/20	**6.702**	**-**	**6.702**

Note 23: Grant Income

The Authority credited the following grants, capital contributions and capital donations to the Comprehensive Income and Expenditure Statement in 2018/19:

2017/18 £millions		2018/19 £millions
	Credited to Taxation and Non Specific Grant Income	
-26.325	- Revenue Support Grant	-16.082
-2.510	- Council Tax Freeze Grant	-
-0.067	- Lead Local Flood Authority Grant	-0.072
-0.134	- Inshore Fisheries Grant	-0.134
-3.769	- New Homes Bonus	-2.475
-1.917	- Business Rates Cap	-3.753
-0.388	- Rights to Free Travel	-0.514
-4.305	- Building Schools for the Future	-4.259
-1.027	- Education Services Grant - Serv for LA	-
0.000	- Adult Social Care Support Grant	-1.561
-0.346	- Local Reform and Community Voices Gnt	-0.352
-1.928	- Rural Services Delivery Grant	-2.403
-1.085	- Transitional Grant	-0.088
-6.878	- Standards Fund Capital Grant	-8.143
-29.266	- Department for Transport Capital Grant	-33.048
-3.269	- LEP	-2.796
-1.410	- Airband	-2.553
-1.184	- Housing & Technology Grant	-
-1.150	- Lufton Kingfisher Primary School	-
-6.656	- Other capital grants / Contributions (including developer S106 income)	-15.508
-93.614	**Total**	**-93.740**
	Credited to Services	
-212.845	- Dedicated Schools Grant	-212.483
-9.032	- Standards Fund	-6.782
-9.484	- Pupil Premium Grant	-9.493
-0.666	- Music Education Grant	-0.667
-0.640	- Special Educational Needs Reform Grant	-
-0.687	- LEP - Start Up Fund	-0.701
-23.894	- LEP - Growth Hub	-21.010
-0.253	- Adoption Support Grant	-0.348
-0.461	- Controlling Migration Grant	-
-3.712	- Sixth Form Funding (S6F)	-3.525
-2.287	- Primary PE and Sports Grant	-2.789
-0.462	- Youth Justice	-0.462
-1.249	- Troubled Families	-1.865
-0.270	- Step Up Social Work	-1.358
-0.357	- School Improvement Grant	-0.717
-0.125	- Year 7 Catch Up preimium grant	-0.109
-4.325	- Universal Infants Free School Meals	-3.893
-0.700	- Opportunity Areas	-2.970
-	- Teachers Pay Grant	-0.733
-1.011	- Children and Young People services – other grants	-1.294
-1.270	- Independent Living Fund	-1.230
-21.502	- Public Health grant	-20.723
-12.084	- Care Act *	-16.360
-	- Winter Pressures Grant	-2.498
-0.602	- Adult services – other grants	-0.002
-0.294	- DEFRA - AONB & LARC	-0.212
-	- Triple C Project	-0.718
-2.136	- Grant from Broadband Delivery UK	-3.194
-0.405	- Bus Service Operators Grant	-0.405
-2.534	- Building Schools for the Future contributions	-2.580
-0.005	- Economic, Communities & Infrstructure services - other grants	-0.644
-0.673	- Other services grants	-1.155
-313.966	**Total**	**-320.921**

Note 24: Partnerships and Related Party Transactions

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

Central Government

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

Officers

Officers of the Authority are bound by the rules and procedures of the Council's Constitution. Officers are required to register any personal interests which may affect their judgement as an employee of the Authority. Senior officers were also required to declare transactions with the Authority. One senior officer sat on the board of Futures for Somerset, details given below. 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 2018/19 is shown in Note 18. The Members' Code of Conduct requires Members to declare interests in related parties in the Register of Members' Interests. The Register is available on the Council's website and is open to public inspection at County Hall during office hours. Members were also asked to declare separately transactions with the Authority. No material transactions between the Authority and businesses in which members have a controlling interest have been identified.

A number of Members are also members of other local public bodies, including district, parish and town councils, academies and NHS trusts. One co-optee member who sits on a scrutiny panel is also the principal of a school academy foundation trust. No other material transactions between the Authority and these organisations (in which members have a controlling interest within the council) have been identified.

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 2018/19 SCC paid £36.965m to Discovery.
- Various small local companies (9 in total) that provide transport on behalf of the Authority. The total paid to these companies during 2018/19 was £1.432 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 2018/19 the Authority paid £0.714 million to Futures for Somerset.

Note 25: Property, Plant and Equipment

Movements in 2018/19	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Surplus Assets	Assets Under Construction	Total
	£millions	£millions	£millions	£millions	£millions	£millions
Cost or valuation						
At 1 April 2018	491.418	71.308	662.558	5.075	14.391	1,244.750
Additions	12.392	3.470	49.533	0.022	15.707	81.125
Disposals	-48.990	-29.842	-	-0.746	-	-79.579
Reclassifications	5.802	0.174	-	1.903	-8.021	-0.141
Revaluation Increase/decrease (-):						
- to Revaluation Reserve	-8.471	-	-	-0.171	-	-8.642
- to Surplus/Deficit on the provision of service	-14.612	-	-	-1.272	-	-15.885
At 31 March 2019	437.539	45.110	712.091	4.812	22.077	1,221.628
Depreciation and impairments						
At 1 April 2018	-2.927	-49.254	-282.827	-0.172	-0.001	-335.181
Charge for 2018/19	-13.549	-7.419	-9.515	-0.054	-	-30.538
Disposals	4.223	29.776	-	0.274	-	34.273
Reclassifications	0.270	-	-	-0.270	-	-
Revaluations	20.905	-	-	0.317	-	21.222
Impairment Losses (-)/reversals:						
- to Surplus/Deficit on the provision of service	-1.484	-	-	-	-	-1.484
At 31 March 2019	7.438	-26.898	-292.342	0.095	-0.001	-311.708
Balance sheet amount at 1 April 2018	**488.491**	**22.054**	**379.731**	**4.903**	**14.390**	**909.569**
Balance sheet amount at 31 March 2019	**444.976**	**18.212**	**419.749**	**4.906**	**22.076**	**909.920**
Nature of asset holding at 31 March 2019						
Owned	419.383	18.212	419.749	4.906	22.076	884.327
Finance lease	25.593	-	-	-	-	25.593
	444.976	**18.212**	**419.749**	**4.906**	**22.076**	**909.920**

None of the Authority's assets were recognised under a PFI type arrangement, during 2018/19.

Movements in 2017/18	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Surplus Assets	Assets Under Construction	Total
	£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	-	-0.101	-	-31.257
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	5.047	14.391	1,244.711
Depreciation and impairments						
At 1 April 2017	-9.501	-49.984	-274.054	-0.275	-0.443	-334.257
Charge for 2017/18	-12.848	-5.771	-8.646	-0.054	-	-27.319
Disposals	0.387	6.501	-	0.101	-	6.989
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	-0.144	-0.001	-335.142
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**

Capital Commitments

At 31 March 2019, the Authority anticipated investing £554.866m (£313.063m at 31 March 2018) in the construction or enhancement of Property, Plant, Equipment and Infrastructure during 2019/20 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:

- £30.075m for the Superfast Broadband Programme
- £16.497m for the Junction 25, M5 Scheme
- £13.500m for Bower Lane Special School in Bridgwater
- £7.006m for the major refurbishment works for County Hall A Block
- £5.621m for the Colley Lane Southern Access Road
- £4.227m for the Yeovil Western Corridor Capacity Upgrade
- £2.070m for the new Taunton Hazelbrook Special School
- £1.879m for the new Nerrols Primary School in Taunton

Similar commitments listed at 31 March 2018 were £55.671m.

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 £25 million and £30 million in 2019/20 (£22-£26 million in 2018/19). These payments will relate to new projects in 2019/20 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 current 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, 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; and
- 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	-	18.212	419.749	-	22.076	**460.037**
Valued at fair value as at:						
31 March 2019	336.754	-	-	2.906	-	**339.660**
31 March 2018	17.195	-	-	-	-	**17.195**
31 March 2017	33.503	-	-	2.000	-	**35.503**
31 March 2016	27.756	-	-	-	-	**27.756**
31 March 2015	29.768	-	-	-	-	**29.768**
Total cost or valuation	**444.976**	**18.212**	**419.749**	**4.906**	**22.076**	**909.919**

Note 26: Intangible Non-Current Assets

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

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

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation charge of £1.292 million for 2018/19 was charged to the following service areas:

- £1.005 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 £0.287 million was charged to various services for use of specific IT systems.

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

2017/18 £millions		2018/19 £millions
	Balance at start of year:	
7.774	– Gross carrying amount	7.783
-2.211	– Accumulated amortisation	-3.392
5.563	**Net carrying amount at start of year**	**4.390**
	Movement in year:	
0.008	Purchases	0.025
-1.181	Amortisation for the period	-1.292
4.390	**Net carrying amount at end of year**	**3.123**

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

	Carrying amount at 31 March 2018 £millions	Carrying amount at 31 March 2019 £millions	Remaining Amortisation Period at 31 March 2019
HCL SAP system (Integrated finance and payroll system)	2.931	1.926	2 years
SAP system licences	1.068	0.997	14 years

Note 27: Impairment Losses

During the valuation process for 2018/19, consideration was given to the Authorities entire asset portfolio. From this review the impairments to specific assets of £1.484m, resulted from poor conditions on a few specific assets. There were no material impairments in 2017/18.

Note 28: Assets Held For Sale

The Authority's assets held for sale at 31/03/2019 and the movement in the year is reflected in the table shown below:

Current 2017/18 £millions		Current 2018/19 £millions
0.211	**Balance outstanding at start of year**	**1.709**
	Assets newly classified as held for sale:	
3.532	Property, plant and equipment	0.141
-	Revaluation gain	0.720
-	Revaluation loss	-0.041
-1.898	Impairment losses	-0.018
	Assets declassified as held for sale:	
-0.136	Assets sold	-1.634
1.709	**Balance outstanding at year end**	**0.877**

Note 29: Surplus Assets – Fair Value Measurement

Valuation Process for Surplus Properties

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

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

Fair Value Hierarchy

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

Fair value hierarchy of surplus assets for the year ending 31 March 2019:

	Other significant observable inputs (level 2) £millions	Significant unobservable inputs (level 3) £millions	Fair value as at 31 March 2019 £millions
Office/specific use properties	0.226	0.717	0.943
Commercial units	0.232	-	0.232
Land	0.005	3.726	3.731
	0.463	**4.443**	**4.906**

None of the authority's surplus assets were valued using level 1 (quoted prices in an active market for identical assets) inputs.

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

	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**

Transfers between Levels of the Surplus Asset Fair Value Hierarchy

There was one asset whose valuation assumptions in 2018/19 led to a change in their overall observable input categorisation from that report in 2018/19.

This is explained as follows:

- The Welcome Cuppa- the significant observable estimation (category 2) input changed from the input of an agreed sale price to the unobservable (category 3 input) of as rental yield

Reconciliation of Surplus Asset Fair Value Measurements within Level 3

2018/19	01 April 2018 £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 2019 £millions
Surplus assets	4.040	0.075	-	0.941	-	-0.250	-0.056	-0.307	4.443

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 31/03/2019 £millions	Valuation technique used to measure fair value	Significant unobservable inputs	Range with (average used)	Sensitivity
Office/specific use properties	0.717	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	3.726	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 2018/19 is as follows:

- Depreciation of £0.054m has been charged to non-distributed costs within the surplus or deficit on continuing operations.
- £1.272m of revaluation loss where there was no existing revaluation reserve. This went to the relevant service within the surplus or deficit on continuing operations.
- £0.146m as a gain to the Surplus or deficit on revaluation of fixed assets within other comprehensive income.

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

Note 30: Leases

Authority as Lessee

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

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

	31 March 2018 £millions	31 March 2019 £millions
Other Land and Buildings	22.736	25.593
Vehicles, Plant and Equipment	0.194	-
	22.930	**25.593**

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 2018/19 (below) are the finance lease liability and finance costs for the BSF Bridgwater PFI scheme. Although the schools have been de-recognised from the Authority's accounts (due to control lying with the Bridgwater Education Trust) the lease rental payments are still payable and are therefore included within the total minimum lease payments. See note 31 for further details.

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

2017/18 £millions		2018/19 £millions
	Finance lease liabilities (net present value of minimum lease payments):	
0.835	- Current	0.914
42.886	- Non Current	41.971
56.204	Finance costs payable in future years	49.217
99.925	Minimum lease payments	**92.102**

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

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2018 £millions	31 March 2019 £millions	31 March 2018 £millions	31 March 2019 £millions
Not later than one year	5.085	4.949	0.835	0.914
Later than one year and not later than five years	20.335	19.799	4.218	4.618
Later than five years	74.505	67.354	38.668	37.353
	99.925	**92.102**	**43.721**	**42.885**

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 2018/19, £0.099m contingent rents were paid by the Authority (£0.073m in 2017/18).

The Authority has sub-let part of Taunton Museum (held under a finance lease) as an operating lease. At 31 March 2019, the minimum lease payments expected to be received under non-cancellable sub-leases was £0.130m (£0.134m in 2017/18).

Operating Leases

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

	31 March 2018		31 March 2019	
Operating Leases	**Land & Buildings £millions**	**Vehicles & Equipment £millions**	**Land & Buildings £millions**	**Vehicles & Equipment £millions**
Not later than one year	0.576	0.382	0.566	0.359
Later than one year and not later than five years	2.191	0.420	1.929	0.354
Later than five years	2.228	-	2.029	0.001
	4.995	**0.802**	**4.524**	**0.714**

The Authority has sub-let some of the assets acquired under operating leases. At 31 March 2019, the minimum lease payments expected to be received under non-cancellable sub-leases were £0.714m (£0.357m at 31 March 2018).

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

	31 March 2018 £millions	31 March 2019 £millions
Minimum Lease Payments	0.073	0.103
Less - Sub-lease payments receivable	-0.040	-0.106
	0.033	**-0.003**

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 82 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 97 years and also the Rural Life Barn museum to the Somerset Preservation Trust with a remaining term of 74 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 2018 £millions	31 March 2019 £millions
Finance lease debtor (net present value of minimum lease payments):		
- Current	0.030	0.029
- Non Current	16.371	14.344
Unearned Finance Income	54.312	48.677
Gross investment in the lease	**70.713**	**63.050**

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 2018 £millions	31 March 2019 £millions	31 March 2018 £millions	31 March 2019 £millions
Not later than one year	0.872	0.790	0.872	0.790
Later than one year and not later than five years	3.489	3.159	3.489	3.159
Later than five years	66.352	59.101	66.352	59.101
	70.713	**63.050**	**70.713**	**63.050**

During 2018/19, 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 2018/19. This will be reviewed again in 2019/20, 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 2018/19, £0.064m contingent rents were receivable by the Authority (£0.073m for 2017/18).

Operating Leases

The Authority leases out property under operating leases for the following purposes:

- For the provision of community services, such as sports facilities, tourism services and community centres;
- For economic development purposes to provide suitable affordable accommodation for local businesses.

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

Operating Leases	31 March 2018 £millions	31 March 2019 £millions
Not later than one year	1.065	1.033
Later than one year and not later than five years	3.990	3.856
Later than five years	4.177	3.662
	9.232	**8.551**

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

Building Schools for the Future (BSF)

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

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

The contractor has taken on the obligation to maintain the constructed buildings to a minimum acceptable condition and to procure and maintain the plant and equipment needed to operate them. The buildings and any plant and equipment installed in them at the end of the contract will be transferred to the Bridgwater Education Trust (BET), for nil consideration. The Authority only has rights to terminate the contract if it compensates the contractor in full for any outstanding debt and other costs incurred.

Property, Plant and Equipment

The assets used to provide services under the PFI contract are recognised on the Authority's Balance Sheet. Movements in their value over the year are detailed in the analysis of the movement on the Property, Plant and Equipment balance in Note 25.

Contractual Payments

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

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

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

	Repayments of Liability £m	Interest Charges £m	Service Charges £m	LifeCycle Replacement £m	Total Payments £m
Within 1 year	0.909	4.021	1.825	0.560	**7.315**
Within 2 - 5 years	4.595	15.122	7.302	2.242	**29.261**
Within 6 - 10 years	8.705	15.941	9.128	2.802	**36.576**
Within 11 - 15 years	13.768	10.878	9.128	2.802	**36.576**
Within 16 - 20 years	14.516	2.923	6.534	2.242	**26.215**
	42.493	**48.885**	**33.917**	**10.648**	**135.943**

Although the Authority is committed to making these payments the leisure centre and new schools will be under the control of the BET and therefore do not appear on the Authority's balance sheet. This is also referred to in Note 30 (Leases) on page 125.

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:

	2017/18 £millions	2018/19 £millions
Balance outstanding at start of year	44.079	43.323
Payments made during the year	-0.756	-0.830
Balance outstanding at year-end	**43.323**	**42.493**

The total estimated indexed payments under the contract amount to £178.421 million. These payments are scheduled to be funded from the following revenue streams:

	Proportion of Costs
Central Govt.Grant (PFI Credits)	81.2%
Delegated School Budgets	16.6%
SCC Contribution	2.2%
	100%

Note 32: Heritage Assets - Summary of Transactions

	2017/18 £millions	2018/19 £millions
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 or purchased during 2018/19 and no charges for impairment losses or revaluation gains/losses have been recognised. There have also been no heritage assets disposed of during this period.

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

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

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

The Trust's museums 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, Somerset Rural Life Museum, Glastonbury, and Somerset Brick and Tile Museum, Bridgwater.

The origins of the museum's collections lie with the formation of Somerset Archaeological and Natural History Society in 1849. Among the aims of the Society was the creation of a museum and from the beginning it 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 museum collections comprise 2.5 to 3 million objects. The pre-1958 collection is largely owned by Somerset Archaeological and Natural History Society and includes some objects originally loaned to the Society by third parties. Post-1958 acquisitions very largely belong to Somerset County Council but also include some loans made by individuals, organisations and other museums. Among the loans are extensive collections belonging to 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 as follows:

- A proportion of the collection can be seen by visitors to the Trust's three museums, namely the Museum of Somerset, Taunton, Somerset Rural Life Museum, Glastonbury, and 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 on Tuesday and Thursday. 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.
- Elements of the collection not on display are stored 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 the 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 a 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 the biology collection in the Balance Sheet, as valuations are not available at a cost commensurate to users of the financial statements.

<u>Archaeology</u>
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 reports in the balance sheet is a Roman Bronze Statue of Capricorn. The other items of the 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.

<u>Ceramics</u>
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 the ceramics collection in the Balance Sheet, as valuations are not available at a cost commensurate to users of the financial statements.

<u>Metalwork</u>
The Museums Service holds a collection of 185 bronze skillets, cauldrons, posnets and mortars, of which 179 pieces comprise the Butler Collection which was acquired in 2004. This is the largest collection of English bronze cooking vessels in 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 the metalwork collection, valuations are not available at a cost commensurate to users of the financial statements.

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

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

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

Archives

Included within the Authority's 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. Together with its own historic administrative archives, the Authority owns many other significant collections, including those of the Luttrell, Dickinson, Wyndham and Walker-Heneage families.

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.

Note 34: Financial Instruments

Transition to IFRS 9 Financial Instruments

The Code confirms an effective date for the implementation of IFRS9 Financial Instruments of 1 April 2018. The Codes states that although authorities should apply IFRS9 retrospectively, there should be no restatement of preceding year information. Consequently, where financial instruments are reclassified and remeasured, adjustments should be calculated retrospectively, but the adjustments are only accounted for at 1 April 2018.

This concession has resulted in no restatement of the prior-year comparatives (year-ending 31st March 2018) in either the Comprehensive Income and Expenditure Statement or the Balance Sheet.

The effects of the transition to IFRS9 are summarised in the following tables:

Table 2.1: Reclassification and remeasurement of financial assets at 1 April 2018

This note shows the effect of reclassification of financial assets following the adoption of IFRS9 by The Code, and the remeasurements of carrying amounts required.

		New classifications at 1 April 2018		
	Carrying amount brought-forward at 1 April £millions	Amortised cost £millions	Fair value through other comprehensive income £millions	Fair value through profit or loss £millions
Previous classifications				
Loans and Receivables	54.417	54.417	-	-
Cash & Cash Equivalents	24.049	24.049	-	-
Investments	184.070	174.336	-	9.734
Reclassified amounts at 1 April 2018		252.802	-	9.734
Remeasurements at 1 April 2018				
Impact on Available-for-Sale Financial Instruments Adjustment Account		-	-	0.366
Impact on Pooled Investment Funds Adjustment Account		-	-	-0.366
Remeasured carrying amounts at 1 April 2018		252.802	-	9.734

Most of the authority's financial assets were reclassified as Amortised Cost, as they were being held within a business model whose objective was to hold financial assets in order to collect contractual cash flows, and the contractual terms of the financial asset give rise on specified dates to cash flows that were solely payments of principal and interest on the principal amount outstanding. The authority holds a pooled funds investment that is not held solely for payments of principal and interest as the investment can be redeemed at any time, so this investment has been classified as Fair Value through Profit or Loss under IFRS9.

Table 2.2: Effect of reclassification and remeasurement on the Balance Sheet

This note shows how the new balances at 1 April 2018 for financial assets are incorporated into the Balance Sheet

	New classifications at 1 April 2018			
	Amortised cost £millions	Fair value through profit or loss £millions	Non-financial instrument balances £millions	Total Balance Sheet carrying amount £millions
Remeasured carrying amounts at 1 April 2018	252.802	9.734		
Long-term investments	-	9.734	-	9.734
Long-term debtors	20.959	-	1.579	22.538
Cash & Cash Equivalents	24.049	-	-	24.049
Short-term investments	174.336	-	-	174.336
Current debtors	33.458	-	25.016	58.474

Application of classification requirements at 1 April 2018

The following judgement was made in reclassifying financial instruments at 1 April 2018:

- The authority's investment with the CCLA pooled investment fund was reclassified from available-for-sale to fair value through profit or loss, as there are no contractual payments comprising solely interest and principal and it is not being held as part of a business model to sell financial assets.

Reclassification and remeasurement of impairment losses at 1 April 2018

The authority has not recognised any material adjustment to the impairment loss allowance as a result of the reclassification of financial assets and the change from an incurred losses model to an expected losses model for calculations. Further details on how the authority manages the risk of default (credit risk) can be found in Note 35: Nature and Extent of Risks Arising from Financial Instruments

Categories of Financial Instrument

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

31 March 2018			31 March 2019	
Non Current £millions	Current £millions		Non Current £millions	Current £millions
		Investments		
-	174.336	Loans and receivables at amortised cost	5.000	145.509
9.734	-	Pooled Funds at fair value through profit or loss	9.883	-
9.734	**174.336**	**Total Investments**	**14.883**	**145.509**
		Debtors		
20.959	33.458	Loans and receivables at amortised cost	19.009	35.618
1.579	25.016	Debtors that are not financial instruments	1.698	17.642
22.538	**58.474**	**Total Debtors**	**20.707**	**53.260**
		Cash and cash equivalents		
-	26.022	Cash and cash equivalents at amortised cost	-	3.526
-	-	Cash equivalents at fair value through profit or loss	-	34.925
-	-1.973	Overdraft	-	-2.884
-	**24.049**	**Total Cash and cash equivalents**	**-**	**35.567**
		Other Assets		
915.893	9.314	Other Assets that are not financial instruments	914.977	8.761
915.893	**9.314**	**Total Other Assets**	**914.977**	**8.761**
		Borrowings		
-335.684	-8.834	Financial liabilities at amortised cost	-326.188	-11.836
-335.684	**-8.834**	**Total Borrowings**	**-326.188**	**-11.836**
		Creditors		
-0.256	-67.028	Financial liabilities at amortised cost	-0.256	-57.549
-	-17.596	Creditors that are not financial instruments	-	-16.847
-0.256	**-84.624**	**Total Creditors**	**-0.256**	**-74.396**
		Other Liabilities		
-42.885	-0.835	PFI and finance leases carried at amortised cost	-41.972	-0.914
-826.319	-83.506	Other Liabilities that are not financial instruments	-831.401	-71.820
-869.204	**-84.341**	**Total Other Liabilities**	**-873.373**	**-72.734**

Categories of Financial Assets and Financial Liabilities

The following categories of financial assets and liabilities are carried in the Balance Sheet

31 March 2018 Non Current £millions	31 March 2018 Current £millions		31 March 2019 Non Current £millions	31 March 2019 Current £millions
		Financial Assets:		
20.959	231.843	Measured at amortised cost	24.009	181.769
-	-	Measured at fair value through profit or loss	9.883	34.925
9.734	-	Measured at fair value through other comprehensive income and expenditure	-	-
30.693	**231.843**		**33.892**	**216.694**
		Financial Liabilities		
-378.825	-76.697	Measured at amortised cost	-368.416	-70.299
-378.825	**-76.697**		**-368.416**	**-70.299**

The authority does not hold any financial liabilities measured at fair value though profit or loss.

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 2018 Financial Liabilities - measured at amortised cost £millions	31 March 2018 Financial Assets - measured at fair value through profit or loss £millions	31 March 2018 Financial Assets - measured at amortised cost £millions		31 March 2019 Financial Liabilities - measured at amortised cost £millions	31 March 2019 Financial Assets - measured at fair value through profit or loss £millions	31 March 2019 Financial Assets - measured at amortised cost £millions
19.308	-	-	Interest expense	19.420	-	-
-	-	-	Loan premium	1.142	-	-
19.308	**-**	**-**	**Total Expense in Surplus/Deficit on the Provision of Service**	**20.562**	**-**	**-**
-	0.366	-	Loss on revaluation	-	-	-
-	0.366	-	**Total Expense in Other Comprehensive Income & Expenditure**	-	-	-
-	-	-2.561	Interest Income	-	-	-3.009
-	-	-	Increase in Fair Value	-	-0.150	-
-	**-**	**-2.561**	**Total Income in Surplus/Deficit on the Provision of Service**	**-**	**-0.150**	**-3.009**
19.308	**0.366**	**-2.561**	**Net (Gain)/Loss for the Year**	**20.562**	**-0.150**	**-3.009**

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 2019;
- 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 Pooled Funds are carried in the Balance Sheet at fair value, based on the market price.

The fair values calculated are as follows:

31 March 2018 Carrying Amount £millions	31 March 2018 Fair value (Restated) £millions		31 March 2019 Carrying Amount £millions	31 March 2019 Fair Value £millions
		Finance asset measured at amortised cost		
24.049	24.049	- Cash and Cash Equivalents	0.642	0.642
54.417	60.816	- Debtors	54.627	63.170
174.336	174.336	- Investments (exc Pooled Fund)	150.509	150.509
		Finance asset measured at fair value through profit and loss		
9.734	9.734	- Pooled Fund Investment	9.883	9.883
-	-	- Cash Equivalents	34.925	34.925
262.536	268.935	Total Financial Assets	250.586	259.129
951.802	951.802	Other assets that are not financial instruments	943.078	943.078
1,214.338	**1,220.737**	**Total Assets**	**1,193.664**	**1,202.207**
		Financial liabilities at amortised cost		
-67.284	-67.284	Creditors	-57.805	-57.805
-8.383	-8.383	Short Term Borrowing	-7.480	-7.480
-160.293	-224.663	PWLB	-160.272	-229.048
-175.842	-278.148	Other long term loan	-170.272	-260.682
-43.721	-78.683	PFI/Finance Lease liability	-42.886	-76.646
-455.523	-657.161	Total Financial Liabilities	-438.715	-631.661
-927.420	-927.420	Other liabilities that are not financial instruments	-920.068	-920.068
-1,382.943	**-1,584.581**	**Total Liabilities**	**-1,358.783**	**-1,551.729**
-168.605	**-363.844**	**Net Assets**	**-165.119**	**-349.522**

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. Level 2 techniques are based on observable inputs, in this instance reviewing market conditions for loans and observed interest rates to ascertain a fair value - further detail is provided within the above bullet points and in accounting policy 11 (page 64).

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 2019) arising from a commitment to pay interest to lenders above current market rates.

As the Authority’s long-term investment in the CCLA Pooled Investment Fund has been adjusted in our accounts to reflect its market value, the fair value of the asset is the same as the carrying 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:

2017/18 £millions		2018/19 £millions
	Investments through the Comfund for:	
3.000	– South West Councils	2.850
2.900	– Exmoor National Park	2.800
0.365	– Police Community Trust	0.365
0.035	– Police and Crime Commissioners Treasurers' Society	0.095
0.215	– Society of County Treasurers	0.190
0.100	– Society of Local Council Clerks	0.100
0.350	– Falcon Housing Trust	0.250
1.300	– Richard Huish College	0.750
0.080	– Wyvern Club	0.080
0.015	– King Alfred School	-
8.360		7.480
165.162	Our own short-term investments	137.562
173.522	Total temporary investments	145.042
0.814	Interest due on temporary investments	0.467
174.336	**Total short-term investments**	**145.509**
-	Our own long-term investments	5.000
9.734	CCLA Pooled Property Fund	9.883
9.734	**Total long-term investments**	**14.883**

Long-term debtors

2017/18 £millions		2018/19 £millions
	Loans to:	
0.280	Central Government (Academy loans)	0.200
0.097	Other authorities (mostly for housing)	0.078
4.196	Other organisations/individuals	4.386
0.014	Officers' car loans and leases	0.000
16.372	Leasing arrangements with Somerset Care Ltd	14.345
	Payment in advance:	
1.579	BSF Lifecycle costs	1.698
22.538		**20.707**

Short-term borrowing

2017/18 £millions		2018/19 £millions
-8.360	Other organisations investing in the Comfund	-7.480
-0.023	Interest payable on temporary borrowing	-
-8.383		**-7.480**

Long-term borrowing

2017/18 £millions		2018/19 £millions
	Loans due to be repaid:	
-0.451	within one year	-0.461
-0.461	between one and two years	-0.470
-1.437	between two and five years	-6.168
-36.251	between five and 10 years	-31.050
-293.501	after more than 10 years	-288.500
-4.034	Interest due on long-term borrowing	-3.895
-336.135		**-330.544**

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

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

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

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

The Authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by the treasury management team, under policies approved by the Authority. The annual Treasury Management Strategy Statement outlines the proposed Treasury Management strategy, policies, and activities for the coming year. It includes an Annual Investment Strategy that is required by the Local Authority Act 2003, as prescribed by guidance from the Ministry of Housing, Communities and Local Government (MHCLG). 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 (default) 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.

Credit and Counterparty Risk - Investments

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 2018/19 can be found under the reports for the County Council meeting 21 February 2018, agenda item 7, Paper C. The Treasury Management Policy Statement is also available on the authority's website.

As had previously been the case with the Authority and is now a requirement of the revised MHCLG 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) and/or Low-Volatility Net Asset Value (LVNAV) 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 authority continuously monitors the creditworthiness of counterparties, in line with the credit risk management practices set out on Appendix B of the Treasury Management report.

All three credit rating agencies' websites (MHCLG guidance states that a credit rating agency is one of Standard & Poor's, Moody's Investor Services Ltd, and Fitch Ratings Ltd) are visited frequently, and all ratings of proposed counterparties will be subject to verification on the day of investment. All ratings of currently used counterparties are reported to the monthly treasury management meeting, where proposals for any new counterparties will be discussed. New counterparties must be approved by the Section 151 Officer (Interim Director of Finance) before they are used. Any changes to ratings that put the counterparty below the minimum acceptable credit quality whilst we have a deposit, or a marketable instrument will be brought to the attention of the Section 151 Officer immediately, and an appropriate response decided on a case-by-case basis. Sovereign credit ratings are monitored and acted on as for financial institution ratings. Investment limits are set by reference to the lowest published long-term credit rating from the three rating agencies mentioned above. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used.

The following analysis summarises the Authority's potential maximum exposure to credit risk on investments (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	34.925	0.042
	Local Authorities		
	AA	48.000	0.024
	UK banks		
	AA	-	-
	A	45.000	0.023
	BBB	-	-
	Overseas Banks		
	AA	57.000	0.028
		184.925	**0.117**
S&P	**Money-market funds**		
	AAA	34.925	-
	Local Authorities		
	AA	48.000	0.012
	UK banks		
	AA	-	-
	A	45.000	0.027
	BBB	-	-
	Overseas Banks		
	AA	47.000	0.009
	A	10.000	0.006
		184.925	**0.054**
Moody's	**Money-market funds**		
	AAA	34.925	-
	Local Authorities		
	Aa	48.000	0.012
	UK banks		
	Aa	35.000	0.007
	A	10.000	0.006
	Overseas Banks		
	Aa	57.000	0.011
		184.925	**0.036**
Investment and highest risk for 2018/19		**184.925**	**0.117**
Investment and highest risk for 2017/18		**195.390**	**0.111**

As the maximum exposure to credit risk is immaterial, the investments in the Balance Sheet have not been reduced by the potential loss allowance.

Credit and Counterparty Risk – Trade and Lease Receivables

The standard position of the authority is that wherever possible payment must be obtained either prior to, or at the time of provision of goods or services and without recourse to raising invoices. If credit is to be extended, service teams ensure in advance that the customer is made aware of the Councils payment terms (payment due immediately on receipt of invoice to minimise any loss). Goods or services will only be supplied when the authority is satisfied of the customers ability to pay (the credit worthiness of new customers is assessed using a credit check service provider).

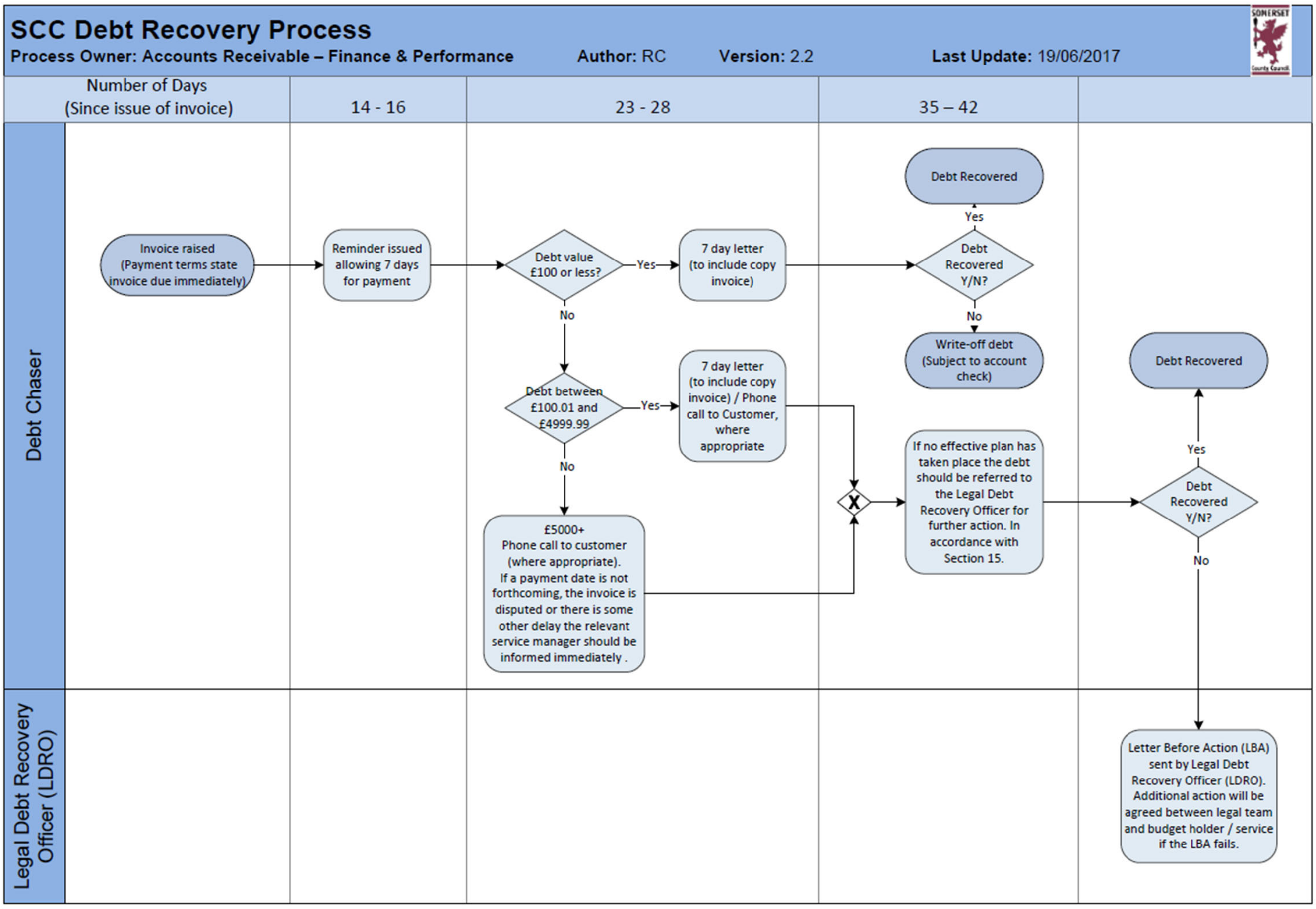
Other safeguards in place, before the authority extends credit to an organisation or individual include:

- Ensuring that the customer does not already have significant outstanding debts to the Council, or has had debts written off previously;
- If supplying goods or services over an extended period of time, stage or interim payments are agreed with the customer, preferably through the setting up of a direct

debit (ensuring that written confirmation of the method of invoicing is received prior to provision of any goods or services).

In the event that a debt becomes overdue, the authority has a formal debt management timetable to minimise the time between the debt being raised and its collection.

The flowchart below shows the authorities debt recovery in a schematic form:



In certain circumstances it may be appropriate for a customer to pay by instalments. Payment by instalments is only acceptable when the customer is genuinely unable to settle the debt in full immediately, (or where this is set out in national guidelines or local political decisions), or in the case of agreed schemes such as County Ticket for students.

The need or payment by instalments is much more likely to occur when the customer is an individual or sole trader, rather than a business. Where this is the case, the authorities Pre-Action Protocol encourages the Council to try and reach agreement for the debt to be paid by instalments, based on the debtor’s income and expenditure. Under the protocol, if the authority agrees to the debtor’s proposal for repayment of the debt, the authority must give the debtor reasons in writing (as this forms part of the evidence should Court proceedings be required).

If the recovery procedures have not resulted in a payment being received, the debt is referred to the authorities Legal Debt Recovery Officer who determines how (or if) to recover the debt. The Legal Debt Recovery Officer will review the paperwork to ascertain whether the debt is a) enforceable and b) if the paperwork provided is sufficient or if more information is required.

Where recovery is likely, any outstanding debt is reviewed at year-end and a loss allowance recognised (see details of the authority’s impairment methodology in the Financial Asset section of the Financial Instrument accounting policy (page 56). Should the Legal Debt Recovery Officer consider a debt to be irrecoverable the debt is written off to the service area that raised the debt.

Amounts Arising from Expected Credit Losses

During the year, the authority wrote off financial assets with a contractual amount outstanding of £0.081m (£0.221m in 2017/18), with a further £0.058m still subject to enforcement activity.

There were no material changes in the loss allowance for any class of financial asset during the year.

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/LVNAV 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 LOBO maturity profile assumes that the lender will not exercise their option until maturity.

The LOBOs are of fixed rates ranging between 3.99% and 5.05%. Of the total amount, £25m have a break clause of every 5 years, £15m has a break clause every 1 year, whilst £65m have a break clause at every interest payment date twice a year. One loan of £5m has an option at any time with 1 months' notice However, in the current low interest rate environment, it is unlikely that the lender will exercise their option to request early repayment of these LOBOs.

The maturity analysis of financial liabilities can be found in Note 34 – 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 interest rates had been 0.1% higher during 2018/19 with all other variables held constant, there would have been an increase in interest receivable on investments of approximately £0.183m.

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, as a statutory override exists (until 31st March 2023) that allows the authority to carry any fair value movements in an unusable reserve until the asset is 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 36: Inventories

	Consumable Stores 2017/18 £millions	Consumable Stores 2018/19 £millions	Musical Instruments 2017/18 £millions	Musical Instruments 2018/19 £millions	Book Stocks 2017/18 £millions	Book Stocks 2018/19 £millions	Total 2017/18 £millions	Total 2018/19 £millions
Balance outstanding at start of year	**0.247**	**0.250**	**0.860**	**0.863**	**6.481**	**6.492**	**7.588**	**7.605**
Purchases	0.509	0.759	0.004	0.000	0.512	0.588	**1.025**	**1.347**
Recognised as an expense in the year	-0.506	-0.715	-0.001	-0.001	-0.501	-0.352	**-1.008**	**-1.068**
Balance outstanding at year-end	**0.250**	**0.294**	**0.863**	**0.862**	**6.492**	**6.728**	**7.605**	**7.884**

Note 37: Short term debtors and payments in advance

2017/18 (Restated) £millions		2018/19 £millions
	Money owed to us by:	
	Government Departments:	
10.148	- Central Government	7.902
26.629	- Local Government	23.083
5.012	- NHS	8.438
-	- Public Corporations	0.041
9.375	Other organisations/individuals	18.964
-9.316	Loss Allowance	-10.115
41.848		48.313
16.626	Payments made in advance	4.947
58.474		**53.260**

Included within the table above are balances relating to local taxation (council tax and non-domestic rates). The amounts owed to us by Local Government includes £17.511m in relation to council tax (£14.150m in 2017/18) and £0.758m for overdue non-domestic business rates (£0.591m in 2017/18).

The loss allowance also includes £9.828m relating to the authorities share of uncollected council tax and locally retained business rates (£8.756m in 2017/18).

This loss allowance has been provided by the district billing authorities and is not an allowance calculated by the authority. Further details of the Council Tax and Business rate accounting policies can be found on page 79.

Note 38: Short term creditors

2017/18 £millions		2018/19 £millions
	Money we owe to:	
	Government Departments:	
-0.901	- Central Government	-0.233
-11.190	- Local Government	-10.666
-1.591	- NHS	-0.827
-53.221	Other organisations	-46.334
-8.118	Employees (under IAS19)	-5.901
-75.021		-63.961
-3.841	Receipts in advance	-4.124
-78.862		**-68.085**

Note 39: Other long-term liabilities

2017/18 £millions		2018/19 £millions
-42.885	Finance Lease Liability - due in more than 1 year	-41.972
-802.463	Pensions liability	-801.670
-845.348		**-843.642**

Note 40: Provisions

Provisions are recognised where the Council has a legal or constructive obligation arising from a past event that will probably require 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 Council 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.

The table below sets out the provisions for 2018/19.

2017/18 £millions		2018/19 £millions
-6.330	Total insurance provision (excl. MMI) set aside on 1 April	-4.933
	Add:	
-0.358	- premiums received from services	-2.500
	Less:	
0.667	- insurance premiums paid	0.869
0.472	- net claims paid	0.590
0.616	- professional and administrative costs	0.649
-4.933	**Total insurance provision set aside on 31 March**	**-5.325**
	Non-Service	
-1.187	NDR Collection Fund - Provision for appeals	-1.389
	Children's Services	
-0.406	Care Leavers Grant	-0.447
	Other Services	
-	Corona Energy re. St Augustines school site	-0.009
-	Bishop Lydeard School House Delapidation	-0.025
-	Monmouth House Delapidation	-0.030
-0.071	Mount Travers House Delapidation	-
-6.597	**Total Provisions due in less than 1 year**	**-7.225**
	Municipal Mutual Insurance (MMI) Provision	
-0.256	Relating to asbestos claims paid by MMI	-0.256
-0.256	**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 £5.581 million of claims not yet finally agreed (£5.189 million in 2017/18) 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 £4.086 million. As the Authority self-insures, we must put aside funds for any future claims as well as the current claims we must still pay.

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

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

Capital grants/contributions

2017/18 £millions		2018/19 £millions
	Capital Grant Receipts in Advance	
	Where the conditions are likely to be met within 1 year:	
-15.408	- Standards Fund (Schools Department for Education)	-13.471
-8.614	- Department for Transport	-11.950
-48.361	- Local Enterprise Partnership Capital Grant	-37.103
-1.483	- Other	-0.959
-73.866		**-63.483**
	Where the conditions are likely to be met in more than 1 year:	
-4.048	- Standards Fund (Schools Department for Education)	-8.659
-0.382	- Department for Transport	-0.521
-1.498	- Local Enterprise Partnership Capital Grant	-0.553
-0.697	- Other	-0.624
-6.625		**-10.357**
	Capital Contribution Receipts in Advance (RIA)	
	Where the conditions are likely to be met within 1 year:	
-7.779	- Section 106 Contributions	-5.839
-0.052	- Other Contributions to our Capital Schemes	-1.069
-7.831		**-6.908**
	Where the conditions are likely to be met in more than 1 year:	
-8.759	- Section 106 Contributions	-8.839
-0.939	- Other Contributions to our Capital Schemes	-1.270
-9.698		**-10.109**
-81.697	Total Capital Grant/Contributions RIA's, where conditions are likely to be met within 1 year	-70.391
-16.323	Total Capital Grant/Contributions RIA's, where conditions are likely to be met in more than 1 year	-20.466
-98.020	**Total**	**-90.857**

Revenue grants

2017/18 £millions		2018/19 £millions
	Revenue Grant/Contributions Receipts in Advance	
	Where the conditions are likely to be met within 1 year:	
-0.113	- Central Government	-0.208
-1.696	- Other organisations	-1.221
-1.809		**-1.429**
	Where the conditions are likely to be met in more than 1 year:	
-7.533	- Other organisations	-9.265
-7.533		**-9.265**
-9.342		**-10.694**

Note 42: Usable Reserves

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

2017/18 £millions		2018/19 £millions
	General Fund - Revenue	
19.146	General Fund - Schools	17.468
20.929	General Fund - Other	17.689
2.820	Earmarked Reserves - set aside for revenue purposes	26.494
42.895		61.651
	Other Usable Capital Reserves	
3.701	Capital Receipts Reserve	6.066
4.957	Capital Grants Unapplied Reserve	3.419
3.564	Capital Contributions Unapplied Reserve	3.571
12.222		13.056
55.117	**Total Usable Reserves**	**74.707**

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 81).

Note 43: Unusable Reserves

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

2017/18 £millions		2018/19 £millions
191.312	Revaluation Reserve	179.774
376.620	Capital Adjustment Account	372.191
16.402	Deferred Capital Receipts Reserve	14.373
-802.463	Pensions Reserve	-801.670
2.891	Collection Fund Adjustment Account	2.720
-8.118	Accumulated Compensated Absences Adjustment Account	-5.902
-	Financial Instruments Adjustment Account	-1.096
-0.366	Available-for-Sale Financial Instruments Adjustment Account	-
-	Pooled Investment Funds Adjustment Account	-0.216
-223.722	**Total Unusable Reserves**	**-239.826**

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.

2017/18 £millions		2018/19 £millions	2018/19 £millions
191.769	**Balance at 1 April**		**191.312**
22.556	Upward revaluation of assets	33.873	
-11.153	Revaluation/Impairment (losses) not charged to the Surplus/Deficit on the Provision of Services	-20.615	
11.403	Surplus/Deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services		**13.258**
-5.631	Difference between fair value depreciation and historical cost dep'n	-7.266	
-6.229	Accumulated gains on asset disposals	-17.530	
-11.860	Amount written off to the Capital Adjustment Account		**-24.796**
191.312	**Balance at 31 March**		**179.774**

Capital Adjustment Account

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

The Account also contains revaluation gains accumulated on property, plant and equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains. Note 10 provides details of the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2017/18 £millions			2018/19 £millions
381.514	**Balance at 1 April**		**376.620**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
-29.217	- Charges for depreciation and impairment of non current assets/assets held for sale	-32.022	
-17.577	- Revaluation losses on Property, Plant and Equipment	-15.903	
-1.181	- Amortisation of intangible assets	-1.292	
0.048	- Reversal/(Increase) of Icelandic impairment	0.046	
-35.888	- Revenue expenditure funded from capital under statute	-33.262	
-4.001	- Flexible use of capital receipts	-8.600	
-24.404	- 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	-46.940	
-112.220			-137.973
11.860	Adjusting amounts written out of the Revaluation Reserve		24.796
-100.360	Net written out amount of the cost of non current assets consumed in the year		-113.177
	Capital Financing applied in the year:		
3.365	- use of the Capital Receipts Reserve to finance new capital expenditure	0.409	
84.309	- Capital grants and contributions that have been applied to capital financing	95.316	
1.482	- Statutory provision for the financing of capital investment charged against the General Fund balance	2.744	
2.309	- Capital expenditure charged against the General Fund balance	1.679	
4.001	- Flexible use of capital receipts	8.600	
95.466			108.748
376.620	**Balance at 31 March**		**372.191**

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.

2017/18 £millions		2018/19 £millions
16.430	**Balance at 1 April**	**16.402**
-0.028	Amounts transferred to the Capital Receipts Reserve during the year	-0.031
	Other movements:	
-	Cancellation of finance leases	-1.998
16.402	**Balance at 31 March**	**14.373**

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.

2017/18 £millions		2018/19 £millions
-835.772	**Balance at 1 April**	**-802.463**
71.117	Remeasurement gains / losses (-) on pension assets/liabilities	44.537
-73.619	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	-78.863
35.811	Employer's pensions contributions and direct payments to pensioners payable in the year	35.119
-802.463	**Balance at 31 March**	**-801.670**

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.

2017/18 £millions		2018/19 £millions
4.691	**Balance at 1 April**	**2.891**
-1.489	Amount by which Council Tax income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax income calculated for the year in accordance with statutory requirements	-0.553
-0.311	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	0.382
2.891	**Balance at 31 March**	**2.720**

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.

2017/18 £millions		2018/19 £millions
-8.454	**Balance at 1 April**	**-8.118**
8.454	Settlement or cancellation of accrual made at the end of the preceding year	8.118
-8.118	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	-5.902
-8.118	**Balance at 31 March**	**-5.902**

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The authority uses the account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred but reversed out of the General Fund Balance to the account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the authority's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the account at 31 March 2019 will be charged to the General Fund over the next 24 years.

2017/18 £millions		2018/19 £millions
-	**Balance at 1 April**	**0.000**
-	Premiums incurred in year and charged to the Comprehensive Income and Expenditure Statement	-1.142
-	Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirments	0.046
-	**Balance at 31 March**	**-1.096**

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.

2017/18 £millions		2018/19 £millions
-	**Balance at 1 April**	-0.366
	Adjustment for the restatement of financial instruments	
-	Amounts reclassified to Pooled Investment Funds Adjustment Account	0.366
-0.366	Revaluation gains/(losses) on available for sale financial asset	-
-0.366	**Balance at 31 March**	**-**

Pooled Investment Funds Adjustment Account

From 1 April 2018, the Government introduced a mandatory statutory override requiring local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds to the newly-formed Pooled Investment Funds Adjustment Account throughout the duration of the override (currently 5 years until 31 March 2023 – though under review). The authority currently has one pooled fund investment, with the CCLA, and any movements in fair value (previously reported in the Available-for-Sale Financial Instruments Adjustment Account) of this investment are posted to this unusable reserve through profit or loss.

2017/18 £millions		2018/19 £millions
-	**Balance at 1 April**	**-**
	Adjustment for the restatement of financial instruments	
-	Amounts reclassified from Available for Sale Financial Instrument Adjustment Account	-0.366
-	Revaluation gains/(losses) on Pooled Investment Funds	0.150
-	**Balance at 31 March**	**-0.216**

Note 44: Cash and Cash Equivalents

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

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

2017/18 £millions		2018/19 £millions
4.132	Net Cash in hand	3.526
21.890	Short term Investment (initial maturity term less than 3 months)	34.925
26.022	**Cash and cash equivalents sub total**	**38.451**
-1.973	Bank overdraft	-2.884
24.049	**Cash and cash equivalents at the end of the reporting period**	**35.567**

Note 45: Cash Flow Statement – Operating Activities

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

2017/18 £millions		2018/19 £millions
61.984	Net surplus(-)/deficit on the provision of services	**54.308**
-28.500	Depreciation and amortisation	-33.313
-19.474	Impairment and downward valuations	-15.903
-37.807	IAS 19 - Pension Liability	-43.744
-24.404	Carrying amount of non-current assets sold	-48.938
-0.311	Movement in working capital	6.022
-110.496		**-135.876**
91.304	Adjustment for items that are investing or financing activities	105.130
42.792		**23.562**

The cash flows for operating activities include the following items:

2017/18 £millions		2018/19 £millions
-2.394	Interest received	-3.337
19.210	Interest paid	20.706

Note 46: Cash Flow Statement – Investing Activities

2017/18 £millions		2018/19 £millions
76.465	Purchase of property, plant and equipment, investment property and intangible assets	84.074
113.500	Purchase of short term and long term investments	135.000
0.523	Other payments for investing activities	0.697
-7.662	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	-11.374
-125.000	Proceeds from short term and long term investments	-158.500
-98.943	Other receipts from investing activities	-92.162
-41.117	**Net cash flows from investing activities**	**-42.265**

Note 47: Cash Flow Statement – Financing Activities

2017/18 £millions		2018/19 £millions
1.717	Repayments of short term and long term borrowing	6.350
1.024	Other payments for financing activities	0.835
2.741	**Net cash flows from financing activities**	**7.185**

Note 48: Reconciliation of Liabilities Arising from Financing Activities

	Liabilities			
	Long Term Borrowing	Short Term Borrowing	Finance Leases	PFI
Balance at 1st April 2018	-336.135	-8.383	-0.398	-43.323
Changes from financing cash flows				
Repayment of borrowings	9.485	0.903	-	-
Payment of finance lease liabilities	-	-	0.006	0.830
Total changes from financing cash flows	9.485	0.903	0.006	0.830
Non-cash changes				
Interest accrued at year-end	-3.894	-	-	-
Balance at 31st March 2019	**-330.544**	**-7.480**	**-0.392**	**-42.493**

Note 49: 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.

2017/18 £millions		2018/19 £millions
354.051	Opening Capital Financing Requirement	366.114
	Capital Investment:	
67.709	- Property, Plant and Equipment	81.124
0.008	- Intangible Assets	0.025
35.888	- Revenue Expenditure Funded from Capital Under Statute	33.262
-0.029	Reduction of capital debtors	-1.998
-0.048	Capitalised Icelandic Investment Impairment/(Reversal)	-0.045
4.001	Expenditure funded under the Capital Receipts Flexibility Directive	8.600
-	Loan Premium (under the Capital Financing Regs (SI 2003 no.3146 as amended)	1.096
	Sources of Finance	
-3.365	- Capital receipts	-0.409
-4.001	- Capital Receipts under the Flexibility Directive	-8.600
-84.308	- Government grants and contributions	-95.316
	- Sums set aside from revenue:	
-2.309	- Direct revenue contributions	-1.679
-1.482	- Minimum Revenue Payments	-2.744
366.114	**Closing Capital Financing Requirement**	**379.430**

2017/18 £millions		2018/19 £millions
	Explanation of movements in year	
-0.082	Increase/Decrease (-) in underlying need to borrow (supported by government financial assistance)	-1.503
12.144	Increase/Decrease (-) in underlying need to borrow (unsupported by government financial assistance)	14.819
12.063	**Increase/Decrease (-) in Capital Financing Requirement**	**13.316**

Note 50: Contingent Liabilities

There are various on-going legal cases against the Authority with no certainty regarding 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 2017/18, 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, 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 2018/19.

- The Authority has a possible obligation in relation to a TUPE transfer of staff. The maximum effect of the claim if found in favour of the staff could be £5.5m.

- The Authority has an obligation to include within its accounts any additional costs relating to Guaranteed Minimum Pension (GMP) requirements on its Local Government Pension Scheme (LGPS). This requirement arises in situations where a pension scheme was 'contracted out' of additional state pension arrangements e.g. State Earnings-Related Pension Scheme (SERPs) or Second State Pension (S2P). If the contracted-out pension's benefits are less than the pensioner would have received if the contracting out had not applied the LGPS would be required to increase the pension paid to reach the GMP. The impact of this requirement is currently unknown, so there is not sufficient basis for the recognition of a 'past service cost' for the scheme. Given the small number of pension scheme members likely to be affected by this requirement, the impact is not expected to be material.

Note 51: 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 2019, 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:

2017/18 £millions		2018/19 £millions
-0.054	Total income	-0.054
0.073	Total spending	0.073
0.019	**(Surplus)/ Deficit**	**0.019**
0.561	Value of fund - brought forward	0.542
-0.019	Movement in year	-0.019
0.542	**Total value of the fund**	**0.523**

Note 52: 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 2019 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 or career average earnings dependant on the time employees joined the scheme (there are three different sections – the 1995; 2008 and 2015 section). 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:

2017/18 £millions	%		2018/19 £millions	%
11.984	16.48	Pension costs charged to the accounts	11.290	16.48
-	0.00	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:

2017/18 £millions	%		2018/19 £millions	%
0.008	1.00	Pension costs charged to the accounts	0.016	2.00

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	
	2017/18 £millions	2018/19 £millions
Comprehensive Income and Expenditure Statement		
Net Cost of Services:		
- current service cost	50.751	47.625
- past service cost and gains/losses arising from settlements	-0.520	10.666
Financing and Investment Income and Expenditure:		
- net interest expense	23.388	20.572
Total Post-employment Benefit Charged to the Surplus or Deficit on the Provision of Services	**73.619**	**78.863**
Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement		
Remeasurement of the net defined benefit liability comprising:		
- return on plan assets (excluding the amount included in the net interest expense)	-19.945	-26.369
- actuarial (gains) and losses arising on changes in demograpic assumptions	0.000	-103.464
- actuarial (gains) and losses arising on changes in financial assumptions	-51.172	85.296
- other actuarial (gains)/losses on plan assets	0.000	0.000
- experience (gain)/loss on defined benefit obligation	0.000	0.000
	-71.117	**-44.537**
Total Post-employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**2.502**	**34.326**
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	**-73.619**	**-78.863**
Actual amount charged against the General Fund Balance for pensions in the year:		
- employers' contributions payable to the scheme	**35.811**	**35.119**

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		
	2016/17 £millions	2017/18 £millions	2018/19 £millions
Present value of the defined benefit obligation:			
- Funded obligation	-1,726.348	-1,738.552	-1,789.792
- Unfunded obligation	-48.997	-46.498	-43.281
	-1,775.345	-1,785.050	-1,833.073
Fair value of plan assets	939.573	982.587	1,031.403
Net liability arising from defined benefit obligation	**-835.772**	**-802.463**	**-801.670**

The net liability shows the underlying commitments that the Authority has in the long run to pay retirement benefits. The total liability of £801.670 million has a substantial impact on the net worth of the Authority as recorded in the Balance Sheet.

The total liability has been adjusted to include an estimate of the increased liability resulting from a Supreme Court ruling to refuse permission for the Government to appeal the Court of Appeals December 2018 judgment in the case of McCloud which found that protections provided to those within 10 years of retirement as part of transition regulations when the scheme was changed constituted discrimination on age grounds. Although the case is not directly related to the Local Government Pension Scheme (LGPS), similar protections were given when the LGPS moved to a new scheme in 2014. The pension fund actuary has estimated the impact on an IAS19 basis to be £13.168m as at 31st March 2019, and the total liability has been increased to include this element.

The pension fund deficit at 31 March 2018 has reduced by £0.793 million from 31 March 2018. 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.

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.

Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets:	**2017/18** £millions	**2018/19** £millions
Opening balance at 1 April	**939.573**	**982.587**
Interest income	25.731	24.514
Remeasurement gain/(loss):		
- return on plan assets (excluding the amount included in the net interest expense	19.945	26.369
Other actuarial gains/(losses)	0.000	0.000
Employer contributions - funded	32.682	32.062
Employer contributions - unfunded	3.129	3.057
Contributions by scheme participants	11.583	11.437
Benefits paid (including unfunded)	-48.916	-50.504
Other	-1.140	1.881
Closing balance at 31 March	**982.587**	**1031.403**

The actual rate of return identified in the table above for 2018/19 represents a gain of 2.68% of plan assets (as at 1st April 2018).

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

Fair Value of Scheme Assets	2018/19		
	Quoted in an active market £millions	Unquoted £millions	Total £millions
Cash and cash equivalents	-	66.010	66.010
Equities:			
- UK	1.031	-	1.031
- Brunel UK equity fund	-	210.406	210.406
- Standard Life Smaller Companies Fund	-	4.126	4.126
Private Equity:			
- Private Equity	-	23.722	23.722
Overseas Equities:			
- North America	63.947	-	63.947
- Europe	74.261	-	74.261
- Japan	1.031	-	1.031
- Pacific (excluding Japan)	28.879	-	28.879
- Emerging market	2.063	-	2.063
- Brunel passive global equity fund	-	246.505	246.505
- Nomura Japan Fund	-	29.911	29.911
- Amundi Emerging Markets Fund	-	39.193	39.193
	171.213	**553.863**	**725.076**
Bonds:			
- UK Fixed Interest - Public Sector	23.722	-	23.722
- UK Fixed Interest - Corporate Sector Investment Grade	40.225	-	40.225
'- UK Fixed Interest - Corporate Sector High Yield	4.126	-	4.126
- Overseas - Corporate Sector Investment Grade	35.068	-	35.068
- Overseas - Corporate Sector High Yield	13.408	-	13.408
- Overseas - index linked - public sector	1.031	-	1.031
	117.580	**-**	**117.580**
Gilts:			
- UK Index-Linked - Public Sector	35.068	-	35.068
	35.068	**-**	**35.068**
Property:			
- UK Property Funds	-	87.669	87.669
	-	**87.669**	**87.669**
Total assets	**323.861**	**707.542**	**1,031.403**

Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation):	2017/18	2018/19
	£millions	£millions
Opening balance at 1 April	**-1,775.345**	**-1,785.050**
Current service cost	-50.750	-47.625
Interest cost	-49.119	-45.086
Contributions by scheme participants	-11.583	-11.437
Past service costs, including curtailments	-4.238	-16.010
Settlements	5.898	3.463
Benefits paid (including unfunded)	48.916	50.504
Remeasurement gains and (losses):		
- actuarial gains/(losses) arising from changes in demographic assumptions	0.000	103.464
- actuarial gains/(losses) arising from changes in financial assumptions	51.171	-85.296
- experience gain/(loss) on defined benefit obligation	0.000	0.000
Closing balance at 31 March	**-1,785.050**	**-1,833.073**

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 £30.892m contributions to the scheme in 2019/20.

The weighted average duration of the defined benefit obligation for scheme members is 20 years for 2018/19 (20 years in 2017/18).

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 2019, 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 2018.

The principal assumptions used by the actuary have been:

2017/18		2018/19
	Mortality Assumptions:	
	Longevity (in years) at 65 for current pensioners:	
24.0	- Men	22.9
25.2	- Women	24.0
	Longevity (in years) at 65 for future pensioners:	
26.2	- Men	24.6
27.8	- Women	25.8
2.3%	Rate of Inflation (CPI)	2.4%
3.8%	Rate of increase in salaries	3.9%
2.3%	Rate of increase in pensions	2.4%
2.6%	Rate of discounting scheme liabilities	2.4%

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	1,798,280	1,833,073	1,868,573
Projected service cost	47,510	48,715	49,952
Adjustment to long term salary increase	**+0.1%**	**0.0%**	**-0.1%**
Present value of total obligation	1,836,337	1,833,073	1,829,832
Projected service cost	48,715	48,715	48,715
Adjustment to pension increases and deferred revaluation	**+0.1%**	**0.0%**	**-0.1%**
Present value of total obligation	1,865,273	1,833,073	1,801,487
Projected service cost	49,951	48,715	47,509
Adjustment to mortality age rating assumption	**+1 Year**	**None**	**-1 Year**
Present value of total obligation	1,902,138	1,833,073	1,766,594
Projected service cost	50,269	48,715	47,210

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:

2017/18 £millions	%		2018/19 £millions	%
0.181	14.38	Pension costs charged to the accounts	0.179	14.38
-	0.00	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
The Rollercoaster
Parkway
Bridgwater
Somerset
TA6 4RL

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.

Fund Account

2017/2018 £ millions Restated	2017/2018 £ millions		2018/2019 £ millions	2018/2019 £ millions	Notes
		Contributions and other income			
20.720		Contributions from employees	20.909		4
78.667		Contributions from employers	85.071		4
2.713		Recoveries from member organisations	2.699		4
5.312		Transfer values received	5.672		5
107.412			**114.351**		
		Less benefits and other payments			
-71.213		Recurring pensions	-76.008		4
-16.535		Lump sum on retirement	-17.761		4
-2.646		Lump sum on death	-2.088		4
-4.205		Transfer values paid	-5.951		5
-0.288		Refund of contributions to leavers	-0.383		6
-94.887			**-102.191**		
	12.525	**Net additions from dealings with members**		**12.160**	
		Management Expenses			
-1.113		Administrative expenses	-1.170		7
-5.706		Investment management expenses	-6.178		8
-0.800		Oversight and governance expenses	-0.608		9
-7.619			**-7.956**		
	4.906	**Net additions including management expenses**		**4.204**	
		Investment income			
50.757		Investment income received	42.212		10
8.975		Investment income accrued	4.714		10
-1.217		Less irrecoverable tax	-1.214		
58.515			**45.712**		
		Change in market value of investments			
48.913		Realised profit or loss	286.389		13
-23.594		Unrealised profit or loss	-215.868		13
25.319			**70.521**		
	83.834	**Net return on investments**		**116.233**	
	88.740	**Net increase in the net assets available for benefits during the year**		**120.437**	

Table continued on next page

Fund Account (continued)

2017/2018 £ millions	2017/2018 £ millions Restated		2018/2019 £ millions	2018/2019 £ millions	Notes
		Change in actuarial present value of promised retirement benefits			
-58.239		Vested benefits	-141.173		14
16.602		Non-vested benefits	6.887		14
	-41.637	**Net change in present value of promised benefits**		**-134.286**	
	47.103	**Net increase/(decrease) in the fund during the year**		**-13.849**	
	-1,764.470	Add net liabilities at beginning of year		-1,717.367	
	-1,717.367	**Net liabilities at end of year**		**-1,731.216**	

The prior period statement above has been restated. This corrects an error in the prior period accounts as presented last year where some of the sub totals and the final total did not correctly sum the component parts of the Fund Account.

Net Asset Statement

On 31 March 2018 £ millions		On 31 March 2019 £ millions	Notes
	Investment assets and liabilities		
2,046.769	Investment assets	2,168.578	11
-0.043	Investment liabilities	-0.376	11
7.656	Other investment balances	4.681	15
	Current assets		
5.588	Contributions due from employers	5.609	
0.246	Cash at bank	0.489	
1.079	Other debtors	2.657	
	Current liabilities		
0.000	Unpaid benefits	0.000	
0.000	Bank overdraft	0.000	
-2.356	Other creditors	-2.262	
2,058.939	**Net assets of the scheme available to fund benefits at end of year**	**2,179.376**	
	Actuarial present value of promised retirement benefits		
-3,639.877	Vested benefits	-3,781.050	14
-136.429	Non-vested benefits	-129.542	14
-1,717.367	**Net liabilities at end of year**	**-1,731.216**	

Notes to the Accounts

Note 1: Description of the fund

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 4 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 2018-2019 financial year were the second 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.

Note 2: Basis of preparation

The statement of accounts summarises the fund's transactions for the 2018/19 financial year and its financial position at 31 March 2019. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code) which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts have been prepared on a going concern basis.

Note 3: Accounting policies

The Fund account is prepared on a full accrual 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 fund and 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 11.

Note 4: Contributions and benefits

2018/2019	Somerset County Council £ millions	Other scheduled employers £ millions	Admitted employers £ millions	Total £ millions
Employees' contributions				
- Normal	7.225	11.347	1.977	**20.549**
- Additional	0.121	0.210	0.029	**0.360**
Total	7.346	11.557	2.006	**20.909**
Employers' contributions				
- Normal	18.014	26.104	5.314	**49.432**
- Augmentation	1.841	3.622	1.008	**6.471**
- Deficit funding	12.552	13.660	2.956	**29.168**
Total	32.407	43.386	9.278	**85.071**
Recurring pension and lump sum payments	-44.966	-40.377	-10.514	**-95.857**
Money recovered from member organisations	1.529	1.156	0.014	**2.699**
	-3.684	**15.722**	**0.784**	**12.822**

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**

Note 4: Contributions and benefits (continued)

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
County council			
Somerset	7.346	32.407	39.753
Police & Crime Commissioner			
Avon & Somerset	4.785	13.698	18.483
District councils			
Mendip	0.272	1.405	1.677
Sedgemoor	0.591	3.090	3.681
South Somerset	0.710	3.382	4.092
Taunton Deane	1.057	6.298	7.355
West Somerset	0.000	0.516	0.516
Parish and town councils			
Axbridge Town Council	0.001	0.004	0.005
Berrow Parish Council	0.001	0.002	0.003
Burnham & Highbridge Town Council	0.011	0.035	0.046
Burnham & Highbridge Burial Board	0.007	0.028	0.035
Castle Cary Town Council	0.003	0.009	0.012
Chard Town Council	0.013	0.045	0.058
Cheddar Parish Council	0.002	0.007	0.009
Coleford Parish Council	0.001	0.002	0.003
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	0.034	0.108	0.142
Glastonbury Town Council	0.011	0.036	0.047
Ilminster Town Council	0.005	0.019	0.024
Langport Town Council	0.002	0.007	0.009
Lower Brue Drainage Board	0.040	0.126	0.166
Minehead Town Council	0.004	0.013	0.017
Nether Stowey Parish Council	0.001	0.005	0.006
Parret Drainage Board	0.005	0.015	0.020
Shepton Mallet Town Council	0.003	0.010	0.013
Somerton Town Council	0.005	0.014	0.019
Street Parish Council	0.005	0.016	0.021
Watchet Town Council	0.001	0.005	0.006
Wellington Town Council	0.001	0.004	0.005
Wells Burial Board & Parish Council	0.027	0.052	0.079
Williton Parish Council	0.001	0.006	0.007
Wincanton Town Council	0.004	0.012	0.016
Yeovil Town Council	0.013	0.040	0.053
Other bodies			
Avon and Somerset Magistrates Courts	0.000	1.123	1.123
Exmoor National Park	0.118	0.407	0.525

Table continued on next page

Note 4: Contributions and benefits (continued)

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
Further-education colleges			
Bridgwater College	0.737	2.384	3.121
Richard Huish Sixth Form College	0.148	0.407	0.555
Strode College	0.154	0.482	0.636
Yeovil College	0.188	0.519	0.707
Academies			
Ansford Academy	0.030	0.105	0.135
Ashill Primary Academy	0.002	0.009	0.011
Avishayes Academy	0.020	0.074	0.094
Axbridge Academy	0.012	0.046	0.058
Bath & Wells Academy Trust	0.270	0.976	1.246
Bishop Fox's Academy	0.057	0.188	0.245
Blackbrook Primary School	0.003	0.012	0.015
Bridgwater College Academy	0.118	0.355	0.473
Brookside Academy	0.058	0.207	0.265
Bruton Sexey's School	0.057	0.189	0.246
Brymore Academy	0.057	0.199	0.256
Buckland St. Mary Church of England School	0.004	0.014	0.018
Buckler's Mead Academy	0.052	0.168	0.220
Castle Academy	0.066	0.232	0.298
Castle Primary School	0.009	0.034	0.043
Chilton Trinity Academy	0.044	0.114	0.158
Countess Gytha Primary School	0.002	0.008	0.010
Courtfields Academy	0.046	0.159	0.205
Crispin Academy	0.048	0.159	0.207
Danesfield Academy	0.022	0.081	0.103
East Brent School	0.005	0.019	0.024
Enmore Academy	0.006	0.021	0.027
Hambridge Primary School	0.011	0.041	0.052
Hamp Academy	0.019	0.069	0.088
Hatch Beauchamp Primary School	0.001	0.004	0.005

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Note 4: Contributions and benefits (continued)

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
Academies (continued)			
Hayesdown Academy	0.015	0.056	0.071
Haygrove Academy	0.060	0.209	0.269
Hemington Primary School	0.002	0.007	0.009
Holy Trinity Church of England School	0.028	0.105	0.133
Holyrood Academy	0.066	0.230	0.296
Horrington Primary School	0.007	0.027	0.034
Hugh Sexey's School	0.028	0.102	0.130
Huish Academy	0.024	0.089	0.113
Huish Episcopi Academy	0.083	0.288	0.371
Huish Episcopi Primary Academy	0.010	0.036	0.046
King Alfred School	0.028	0.098	0.126
King Edward Road Nursery	0.011	0.040	0.051
King Ina (Monteclefe)	0.018	0.070	0.088
Kings of Wessex Academy	0.061	0.200	0.261
Kings of Wessex Leisure	0.016	0.039	0.055
Kingsmead Academy	0.053	0.188	0.241
Leigh On Mendip First School	0.003	0.010	0.013
Lympsham School	0.014	0.034	0.048
Maiden Beech Academy	0.026	0.090	0.116
Manor Court Primary School	0.026	0.103	0.129
Mark Academy	0.011	0.042	0.053
Mendip School	0.026	0.099	0.125
Middlezoy Primary School	0.004	0.014	0.018
Minehead First School	0.025	0.093	0.118
Minehead Middle School	0.052	0.178	0.230
Minerva Primary School	0.012	0.043	0.055
North Town Academy	0.033	0.120	0.153
Northgate Primary School	0.009	0.034	0.043
Nunney First School	0.004	0.013	0.017
Oakfield Academy	0.037	0.129	0.166
Old Cleeve Academy	0.010	0.037	0.047

Note 4: Contributions and benefits (continued)

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
Academies (continued)			
Othery Primary School	0.004	0.016	0.020
Otterhampton Primary School	0.005	0.018	0.023
Pen Mill Academy	0.017	0.060	0.077
Preston Academy	0.044	0.158	0.202
Preston C of E Primary School	0.032	0.115	0.147
Primrose Lane Primary School	0.009	0.034	0.043
Priorswood Academy	0.014	0.054	0.068
Puriton Primary School	0.009	0.032	0.041
Redstart Academy	0.032	0.113	0.145
Ruishton Primary School	0.004	0.015	0.019
Selwood Academy	0.035	0.123	0.158
Selworthy School	0.015	0.056	0.071
St. Dunstan’s Academy	0.017	0.063	0.080
St. Cuthbert's Academy	0.012	0.043	0.055
St. Michael's Academy	0.022	0.081	0.103
St. Michael's Church of England School	0.010	0.039	0.049
St. Peter's Academy	0.012	0.046	0.058
Stanchester Academy	0.037	0.133	0.170
Steiner Academy, Frome	0.028	0.099	0.127
Tatworth Academy	0.007	0.027	0.034
Taunton Academy	0.043	0.158	0.201
The Blue School, Wells	0.099	0.316	0.415
Weare Academy	0.011	0.038	0.049
Wedmore Academy	0.021	0.064	0.085
Wellesley Park Primary School	0.018	0.068	0.086
West Monkton Primary School	0.010	0.032	0.042
West Somerset Community College	0.036	0.132	0.168
Westfield Academy	0.057	0.193	0.250
Westover Green Academy	0.036	0.136	0.172
Whitstone Academy	0.033	0.120	0.153
Willowdown Academy	0.022	0.080	0.102
Woolavington Academy	0.014	0.053	0.067
Total other scheduled employers	11.557	43.386	54.943

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Note 4: Contributions and benefits (continued)

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
Admitted bodies			
Aster Communities Ltd	0.029	0.331	0.360
BAM FM	0.005	0.023	0.028
Capita	0.008	0.033	0.041
Care Focus Somerset Ltd	0.000	0.000	0.000
Churchill Contract Services	0.005	0.023	0.028
Dimensions	0.811	3.179	3.990
Edward and Ward Ltd	0.007	0.024	0.031
Glen Cleaning Company Ltd	0.002	0.007	0.009
Greenwich Leisure	0.070	0.133	0.203
Homes in Sedgemoor	0.106	0.329	0.435
ICM	0.002	0.009	0.011
Idverde Ltd	0.029	0.083	0.112
Learning South West	0.000	0.000	0.000
Leisure East Devon	0.012	0.023	0.035
Magna West Somerset Housing Association	0.059	0.220	0.279
Mama Bear's	0.002	0.005	0.007
May Gurney Ltd	0.020	0.210	0.230
MD Building Services	0.028	0.083	0.111
MITIE	0.004	0.016	0.020
National Autistic Society	0.009	0.065	0.074
NSL Ltd	0.021	0.000	0.021
1610 Ltd	0.005	0.117	0.122
SASP	0.011	0.017	0.028
Society of Local Council Clerks	0.031	0.096	0.127
Somerset Care Ltd	0.029	0.368	0.397
Somerset Skills & Learning	0.092	0.263	0.355
South West Audit Partnership	0.131	0.564	0.695
South West Heritage	0.061	0.142	0.203
South West Provincial Councils	0.033	0.294	0.327
Taylor Shaw Ltd	0.001	0.004	0.005
Wyvern Nursery Ltd	0.005	0.011	0.016
Yarlington Housing Group	0.378	2.606	2.984
Total admitted employers	2.006	9.278	11.284
Total	**20.909**	**85.071**	**105.980**

Note 5: Transfer values

2017/2018 £ millions		2018/2019 £ millions
0.000	Group transfer values received	0.000
5.312	Individual transfer values received	5.672
5.312		**5.672**
0.000	Group transfer values paid	0.000
-4.205	Individual transfer values paid	-5.951
-4.205		**-5.951**

Note 6: Refunds

2017/2018 £ millions		2018/2019 £ millions
-0.240	Contributions refunded to members who leave service	-0.351
-0.005	Interest accumulated on refunds agreed in the past	-0.006
-0.245		**-0.357**
-0.053	Deductions from contributions equivalent premium	-0.029
0.010	Less payments to Department for Work and Pensions contributions equivalent premium	0.003
-0.288		**-0.383**

Note 7: Administrative expenses

2017/2018 £ millions		2018/2019 £ millions
0.000	Benefits administration costs charged by Somerset CC	0.000
-1.106	Benefits administration costs charged by Devon CC	-1.170
-1.106		**-1.170**
0.000	Legal advice costs charged by Somerset CC	0.000
-0.007	External legal advice	0.000
-0.007		**0.000**
0.000	Other expenses	0.000
-1.113		**-1.170**

Note 8: Investment management expenses

2017/2018 £ millions		2018/2019 £ millions
	Fund manager fees	
-0.311	Aviva	-0.316
-0.962	Jupiter*	-1.566
-0.218	Maple-Brown Abbott*	-0.220
-0.288	Amundi	-0.255
-0.040	Somerset County Council	-0.040
-1.458	Aberdeen Standard*	-1.127
-0.721	Other fund managers	-0.821
-3.998		**-4.345**
	Other expenses	
-1.022	Transaction costs	-0.488
-0.058	Custody fees	-0.047
-0.628	Property unit trust managers' fees	-0.355
-1.708		**-0.890**
	Pooling	
0.000	Brunel Fees	-0.566
0.000	3rd Party Fund Manager Fees	-0.336
0.000	Custody fees	-0.012
0.000	Other costs	-0.029
0.000		**-0.943**
-5.706		**-6.178**

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 2018/2019 financial year are £1,027,000 (£483,000 in 2017/2018).

The pooling category above includes fees directly invoiced by Brunel as well as costs deducted directly from pooled investments provided by Brunel.

The transaction costs shown above are broken down as follows:

2017/2018 £ millions Broker comm-issions	2017/2018 £ millions Taxes and Fees	Manager	Asset Class	2018/2019 £ millions Broker comm-issions	2018/2019 £ millions Taxes and Fees
		Purchase Costs			
0.011	0.015	Somerset County Council	Passive global equity	0.006	0.013
0.111	0.598	Aberdeen Standard	UK equity	0.031	0.241
0.002	0.000	Somerset County Council	Passive US equity	0.003	0.000
0.014	0.075	Jupiter	European equity	0.009	0.001
0.000	0.000	Nomura	Japanese equity	0.000	0.000
0.022	0.003	Maple-Brown Abbott	Far East equity	0.019	0.004
0.000	0.000	Amundi	Emerging market equity	0.000	0.000
0.000	0.000	Aberdeen Standard	Bonds	0.000	0.000
0.000	0.000	LaSalle	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
0.160	0.691			0.068	0.259
		Sales Costs			
0.011	0.008	Somerset County Council	Passive global equity	0.008	0.102
0.113	0.000	Aberdeen Standard	UK equity	0.022	0.000
0.003	0.000	Somerset County Council	Passive US equity	0.002	0.001
0.012	0.000	Jupiter	European equity	0.008	0.000
0.000	0.000	Nomura	Japanese equity	0.000	0.000
0.015	0.009	Maple-Brown Abbott	Far East equity	0.013	0.005
0.000	0.000	Amundi	Emerging market equity	0.000	0.000
0.000	0.000	Aberdeen Standard	Bonds	0.000	0.000
0.000	0.000	LaSalle	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
0.154	0.017			0.053	0.108
0.314	**0.708**			**0.121**	**0.367**
	1.022				**0.488**

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.

No attempt has been made to estimate transaction costs incurred within pooled funds.

Note 9: Oversight and governance expenses

2017/2018 £ millions		2018/2019 £ millions
-0.010	Committee services costs charged by Somerset CC	-0.010
-0.239	Investments administration costs charged by Somerset CC	-0.224
-0.249		**-0.234**
-0.101	Actuary's fees	-0.102
0.054	Recharge of Actuary's fees to employers	0.051
-0.047		**-0.051**
-0.024	External audit fees	-0.018
0.004	Fee rebate	0.000
-0.020		**-0.018**
0.000	Internal audit costs charged by South West Audit Partnership	0.000
-0.073	Professional services and subscriptions	-0.079
-0.155	IT systems	-0.160
0.000	Performance measurement fees	0.000
-0.005	External legal advice	0.000
-0.024	Voting advice fees	-0.025
-0.217	Pooling costs	-0.032
-0.010	Other expenses	-0.009
-0.800		**-0.608**

The pooling costs referred to in this note are costs that are related to pooling but not paid to Brunel or regarding anything that Brunel provides. Typically this is legal and other consulting work regarding pooling.

Note 10: Investment income

2017/2018 £ millions		2018/2019 £ millions
9.676	Bonds	9.452
0.501	Index linked bonds	0.475
20.358	UK equities	15.389
18.341	Overseas equities	13.074
10.120	Property unit trusts	7.207
0.381	Cash invested internally	0.990
0.000	Private equity	0.000
0.355	Stock lending	0.339
59.732		**46.926**

Note 11: Investment Assets & Liabilities

31 March 2018 £ millions	£ millions	%	%		31 March 2019 £ millions	£ millions	%	%
				UK equities				
470.890		23.0		Quoted	1.973		0.1	
0.000		0.0		Brunel UK equity fund	441.543		20.4	
10.094		0.5		Standard Life smaller companies fund	9.499		0.4	
	480.984		**23.5**			**453.015**		**20.9**
				Overseas equities				
396.173		19.3		North America	135.332		6.2	
228.258		11.1		Europe	156.774		7.2	
46.870		2.3		Japan	2.763		0.1	
87.974		4.3		Pacific (not including Japan)	60.138		2.8	
0.665		0.0		Middle East	0.000		0.0	
3.746		0.2		Emerging market	3.838		0.2	
0.000		0.0		Brunel passive global equity fund	517.100		23.9	
65.426		3.2		Nomura Japan fund	63.140		2.9	
95.913		4.7		Amundi emerging markets fund	81.518		3.8	
	925.025		**45.1**			**1,020.603**		**47.1**
				Bonds				
42.893		2.1		UK fixed-interest - public sector	50.161		2.3	
83.099		4.1		- corporate sector investment grade	84.912		3.9	
10.428		0.5		- corporate sector high yield	8.921		0.4	
0.000		0.0		Overseas - public sector	0.409		0.0	
74.688		3.6		- corporate sector investment grade	73.527		3.4	
25.959		1.3		- corporate sector high yield	28.331		1.3	
70.923		3.5		UK index-linked - public sector	72.760		3.4	
0.000		0.0		- corporate sector	0.772		0.0	
1.313		0.1		Overseas index-linked - public sector	1.870		0.1	
	309.303		**15.2**			**321.663**		**14.8**
				Property				
197.874		9.7		UK property funds	184.268		8.5	
0.316		0.0		Overseas property funds	0.079		0.0	
	198.190		**9.7**			**184.347**		**8.5**
				Private equity				
13.709		0.7		Neuberger Berman Crossroads 2010 fund	9.900		0.5	
11.634		0.6		Neuberger Berman Crossroads XX fund	13.347		0.6	
11.516		0.6		Neuberger Berman Crossroads XXI fund	15.409		0.7	
2.765		0.1		Neuberger Berman Crossroads XXII fund	8.857		0.4	
1.640		0.1		South West regional venture fund	1.640		0.1	
0.840		0.0		Brunel	0.840		0.0	
	42.104		**2.1**			**49.993**		**2.3**

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Note 11: Investment Assets & Liabilities (continued)

31 March 2018 £ millions	31 March 2018 £ millions	%	%		31 March 2019 £ millions	31 March 2019 £ millions	%	%
				Derivatives				
0.382		0.0		Forward foreign-exchange contracts	0.014		0.0	
0.000		0.0		Government bond futures	0.000		0.0	
	0.382		**0.0**			**0.014**		**0.0**
				Cash and others				
90.781		4.4		Cash invested internally	138.943		6.4	
	90.781		**4.4**			**138.943**		**6.4**
	2,046.769		**100.0**	**Investment assets**		**2,168.578**		**100.0**
				Derivatives				
-0.043		0.0		Forward foreign-exchange contracts	-0.376		0.0	
0.000		0.0		Government bond futures	0.000		0.0	
	-0.043		**0.0**			**-0.376**		**0.0**
	-0.043		**0.0**	**Investment liabilities**		**-0.376**		**0.0**
	2,046.726		**100.0**	**Net investment assets**		**2,168.202**		**100.0**
				Made up of				
	1,514.758			Historical cost		1,852.101		
	531.968			Unrealised profit or loss		316.101		
	2,046.726					**2,168.202**		

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 within private equity 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 2019 was £958,643,000. This investment is also disclosed separately from any other investment in note 13, note 16 and note 30 and a written disclosure is made in note 24 with regard to related parties.

Note 12: Analysis of Pooled Investments

31 March 2018 £ millions		31 March 2019 £ millions
	Unit trusts	
133.265	UK property funds	122.174
	Unitised insurance policies	
0.000	Brunel passive global equity fund	517.100
10.094	Standard Life smaller companies fund	9.499
9.895	UK property funds	0.000
19.989		**526.599**
	Limited liability partnerships	
5.330	UK property funds	0.082
0.063	Overseas property funds	0.053
13.709	Neuberger Berman Crossroads 2010 fund	9.900
11.634	Neuberger Berman Crossroads XX fund	13.347
11.516	Neuberger Berman Crossroads XXI fund	15.409
2.765	Neuberger Berman Crossroads XXII fund	8.857
1.640	South West regional venture fund	1.640
46.657		**49.288**
	Other managed funds	
0.000	Brunel UK equity fund	441.543
65.426	Nomura Japan fund	63.140
95.913	Amundi emerging markets fund	81.518
49.384	UK property funds	62.013
0.253	Overseas property funds	0.026
210.976		**648.240**
410.887	**Total**	**1,346.301**

Note 13: 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
2017/2018	Total	1,966.472	-21.885	1,061.084	-984.264	48.913	-23.594	2,046.726
Somerset County Council	Global equity	488.558	0.000	24.690	-522.007	260.789	-219.200	32.830
Aberdeen Standard	UK equity	454.900	0.000	58.906	-470.860	-7.063	-26.384	9.499
Somerset County Council	US equity	100.231	0.000	16.477	-16.074	3.088	10.962	114.684
Jupiter	European equity	140.953	0.000	22.315	-13.971	-4.674	6.659	151.282
Nomura	Japanese equity	65.426	0.000	0.000	0.000	0.000	-2.286	63.140
Maple-Brown Abbott	Far East equity	60.028	0.000	13.856	-8.177	-2.475	-1.210	62.022
Amundi	Emerging Market equity	95.913	0.000	0.000	0.000	0.000	-14.395	81.518
Aberdeen Standard	Bonds	309.303	0.000	122.528	-110.820	0.675	-0.023	321.663
Aberdeen Standard	Derivatives	0.335	0.000	1,127.800	-1,127.505	0.243	-1.238	-0.365
LaSalle	Property	198.190	0.000	14.174	-29.505	4.625	-3.137	184.347
LaSalle	Currency	0.004	0.000	1.639	-1.639	0.000	-0.001	0.003
Neuberger Berman	Global private equity	39.624	0.000	8.780	-6.276	0.793	4.592	47.513
TVP	UK venture capital	1.640	0.000	0.000	0.000	0.000	0.000	1.640
Brunel	Private equity	0.840	0.000	0.000	0.000	0.000	0.000	0.840
Brunel	UK Equity	0.000	0.000	436.495	-20.000	-0.057	25.105	441.543
Brunel	Global Equity	0.000	0.000	1,020.200	-512.438	4.676	4.662	517.100
Somerset County Council	Cash	90.781	22.367	0.000	0.000	25.769	0.026	138.943
2018/2019	**Total**	**2,046.726**	**22.367**	**2,867.860**	**-2,839.272**	**286.389**	**-215.868**	**2,168.202**

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 2019 was £958,643,000. This investment is also disclosed separately from any other investment in note 11, note 16 and note 30 and a written disclosure is made in note 24 with regard to related parties.

Note 14: 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 IAS 19.

To assess the value of the Fund's liabilities at 31 March 2019, the actuary has rolled forward the value of the Fund's liabilities calculated for the funding valuation as at 31 March 2016

The estimation of the present value of promised retirement benefits is subject to significant variances based on changes to the underlying assumptions. 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 2018		31 March 2019
	Financial assumptions	
3.3%	RPI increases	3.4%
2.3%	CPI increases	2.4%
3.8%	Salary increases	3.9%
2.3%	Pension increases	2.4%
2.6%	Discount Rate	2.4%
	Life expectancy (from age 65)	
24.0	Retiring today - Males	22.9
25.2	- Females	24.0
26.2	Retiring in 20 years - Males	24.6
27.5	- Females	25.8

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

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 consistent with the approach used at the last accounting date.

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

A sensitivity analysis of the present value of promised retirement benefits to changes in these assumptions is provided in the table below.

	£ millions	**£ millions**
Actuarial present value of promised retirement benefits	3,910.592	
Sensitivity to	**+0.1%**	**-0.1%**
Discount rate	3,833.002	3,989.831
Salary increase	3,918.936	3,902.313
CPI increases	3,981.408	3,841.206
Sensitivity to	**+ 1 year**	**- 1 year**
Life expectancy assumptions	4,055.001	3,771.486

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

2017/2018 £ millions		2018/2019 £ millions
118.555	Current service cost	107.326
103.742	Interest cost	95.425
-117.912	Change in financial assumptions	192.656
0.000	Change in demographic assumptions	-222.639
0.000	Experience loss/(gain) on defined benefit obligations	0.000
0.000	Liabilities assumed/(extinguished) on settlements	0.000
-88.083	Estimated benefits paid net of transfers in	-96.212
6.289	Past service costs, inculding curtailments	39.666
19.046	Contributions by scheme members	18.064
41.637		**134.286**

The total liability has been adjusted to include an estimate of the increased liability resulting from a Supreme Court ruling to refuse permission for the Government to appeal the Court of Appeals December 2018 judgment in the case of McCloud, which found that protections provided to those within 10 years of retirement as part of transition regulations when the scheme was changed constituted discrimination on age grounds. Although the case is not directly related to the Local Government Pension Scheme (LGPS), similar protections were given when the LGPS moved to a new scheme in 2014. The pension fund actuary has estimated the impact on an IAS 19 basis to be £30.295m as at 31st March 2019, and the total liability has been increased to include this element.

Note 15: Other investment balances

31 March 2018 £ millions		31 March 2019 £ millions
	Assets	
8.906	- Accrued income	4.714
1.290	- Payments due on investments sold	0.546
0.000	- Cash collateral provided	0.716
10.196		**5.976**
	Liabilities	
-2.077	- Payments not made on purchases and losses due on sales	-1.285
-0.463	- Cash collateral held	-0.010
-2.540		**-1.295**
7.656		**4.681**

Note 16: Management structure

31 March 2018 £ millions	%	Manager	Asset class	31 March 2019 £ millions	%
488.558	24	Somerset County Council	Passive global equity	32.830	2
454.900	22	Aberdeen Standard	UK equity	9.499	0
100.231	5	Somerset County Council	Passive US equity	114.684	5
140.953	7	Jupiter	European equity	151.282	7
65.426	3	Nomura	Japanese equity	63.140	3
60.028	3	Maple-Brown Abbott	Far East equity	62.022	3
95.913	5	Amundi	Emerging market equity	81.518	4
309.638	15	Aberdeen Standard	Bonds	321.298	15
198.194	10	LaSalle	Property	184.350	9
39.624	2	Neuberger Berman	Global private equity	47.513	2
1.640	0	Technology Venture Partners	UK venture capital	1.640	0
0.840	0	Brunel	UK venture capital	0.840	0
90.781	4	Somerset County Council	Cash	138.943	6
2,046.726	**100**	**Not-pooled sub total**		**1,209.559**	**56**
0.000	0	Brunel	UK Equity	441.543	20
0.000	0	Brunel	Global Equity	517.100	24
0.000	**0**	**Pooled sub total**		**958.643**	**44**
2,046.726	**100**	**Net investment assets**		**2,168.202**	**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 2019 was £958,643,000. This investment is also disclosed separately from any other investment in note 11, note 13 and note 30 and a written disclosure is made in note 24 with regard to related parties.

Following a merger with Aberdeen Investments, Standard Life Investments changed its name to Aberdeen Standard Investments. This change is reflected throughout these accounts.

During the year Aviva investors sold the part of the business that manages our property investments to LaSalle Investment Management. This change is reflected throughout these accounts.

Note 17: Classification of financial instruments

31 March 2018 £ millions Fair value through profit & loss	Assets at amortised cost	Liabilities at amortised cost		31 March 2019 £ millions Fair value through profit & loss	Assets at amortised cost	Liabilities at amortised cost
			Investment assets and liabilities			
2,046.769			Investment assets	2,168.578		
-0.043			Investment liabilities	-0.376		
	7.656		Other investment balances		4.681	
			Current assets			
	5.588		Contributions due from employers		5.609	
	0.246		Cash at bank		0.489	
	1.079		Other debtors		2.657	
			Current liabilities			
		0.000	Unpaid benefits			0.000
		0.000	Bank overdraft			0.000
		-2.356	Other creditors			-2.262
2,046.726	**14.569**	**-2.356**	**Net assets of the scheme available to fund benefits at end of year**	**2,168.202**	**13.436**	**-2.262**

Note 18: Net gains and losses on financial instruments

2017/2018 £ millions		2018/2019 £ millions
25.319	Fair value through profit and loss	70.521
0.000	Amortised cost - realised gains (losses) on derocognition	0.000
0.000	Amortised cost - unrealised gains (losses)	0.000
25.319		**70.521**

Note 19: Major holdings

31 March 2018 Rank	31 March 2018 £ millions	Stock	Description	31 March 2019 Rank	31 March 2019 £ millions
-	0.000	Brunel passive global equity fund	Pooled fund of developed market equities	1	517.100
-	0.000	Brunel UK equity fund	Pooled fund of UK equities	2	441.543
1	95.913	Amundi Emerging Market Equity Fund	Pooled fund of emerging market equities	3	81.518
2	65.426	Nomura Japan Fund	Pooled fund of Japanese equities	4	63.140
6	22.409	Schroders UK PUT	Pooled fund of UK property	5	22.927
7	21.251	CBRE UK Property Fund	Pooled fund of UK property	6	21.539
10	19.536	THRE UK Property Fund	Pooled fund of UK property	7	20.294
12	18.516	Blackrock UK PUT	Pooled fund of UK property	8	18.810
8	20.781	IPIF	Pooled fund of UK property	9	16.110
25	11.516	Neuberger Berman Crossroads XXI fund	Private equity fund	10	15.409
20	12.490	THRE Central London Office Fund	Pooled fund of UK property	11	15.362
22	11.634	Neuberger Berman Crossroads XX fund	Private equity fund	12	13.347
27	11.185	Novo Nordisk	Danish pharmaceutical company	13	12.575
28	11.077	Amadeus IT	Spanish IT company	14	12.542
21	12.078	Lothbury	Pooled fund of UK property	15	12.471
19	12.551	RELX	UK publishing company	16	12.366
35	10.230	Wirecard	German financial services company	17	12.098
23	11.630	Deutsche Boerse	German financial services company	18	11.809
24	11.520	Grenke	German financial services company	19	11.283
-	0.000	AEW Real Return Fund	Pooled fund of UK property	20	10.144

The largest two holdings of the fund make up more than 5% of the net investment assets each. The largest holding (Brunel passive global equity fund) makes up 23.8% of the net investment assets. The Brunel UK equity fund makes up 20.4% of the net investment assets

Note 20: 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 2018 £ millions				31 March 2019 £ millions		
Asset	Liability	Net value		Asset	Liability	Net value
			Forward foreign-exchange contracts			
0.378	-0.043	0.335	Aberdeen Standard fixed Interest	0.011	-0.376	-0.365
0.004	0.000	0.004	LaSalle	0.003	0.000	0.003
0.382	**-0.043**	**0.339**		**0.014**	**-0.376**	**-0.362**
			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**
0.382	**-0.043**	**0.339**		**0.014**	**-0.376**	**-0.362**

Aberdeen Standard 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 Aberdeen Standard chose to hedge 100% of their currency risk.

LaSalle 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 LaSalle 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 Aberdeen Standard 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 Aberdeen Standard 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 2018 £ millions				31 March 2019 £ millions		
Asset exposure value	**Liability exposure value**	**Net value**		**Asset exposure value**	**Liability exposure value**	**Net value**
			Forward foreign-exchange contracts			
36.234	-35.899	0.335	Aberdeen Standard fixed Interest	37.860	-38.225	-0.365
0.275	-0.271	0.004	LaSalle	0.081	-0.078	0.003
36.509	**-36.170**	**0.339**		**37.941**	**-38.303**	**-0.362**
			Government bond futures			
1.598	-1.598	0.000	UK gilt future	2.017	-2.017	0.000
0.000	0.000	0.000	European bond future	9.634	-9.634	0.000
0.766	-0.766	0.000	Australian bond future	0.603	-0.603	0.000
0.000	0.000	0.000	Canadian bond future	0.560	-0.560	0.000
2.288	-2.288	0.000	US treasury future	7.122	-7.122	0.000
4.652	**-4.652**	**0.000**		**19.936**	**-19.936**	**0.000**
41.161	**-40.822**	**0.339**		**57.877**	**-58.239**	**-0.362**

The exposure currencies of the forward foreign exchange contracts held by Aberdeen Standard and LaSalle are shown in the table below.

31 March 2018 £ millions Asset exposure value	Liability exposure value	Net value		31 March 2019 £ millions Asset exposure value	Liability exposure value	Net value
			Aberdeen Standard fixed Interest			
34.685	-1.558	33.127	GB Pound	36.453	-1.398	35.055
1.022	-26.471	-25.449	Euro	0.947	-29.402	-28.455
0.000	-1.338	-1.338	New Zealand Dollar	0.000	0.000	0.000
0.527	-6.532	-6.005	US Dollar	0.460	-7.425	-6.965
36.234	**-35.899**	**0.335**		**37.860**	**-38.225**	**-0.365**
			LaSalle			
0.275	0.000	0.275	GB Pound	0.081	0.000	0.081
0.000	-0.271	-0.271	Euro	0.000	-0.078	-0.078
0.275	**-0.271**	**0.004**		**0.081**	**-0.078**	**0.003**
36.509	**-36.170**	**0.339**		**37.941**	**-38.303**	**-0.362**

Note 21: Stock Lending

The fund's investment strategy sets the parameters for its stock-lending programme. The value of investments on loan as at 31 March 2019 is shown in the table below. These assets continue to be recognised in the fund's financial statements. No liabilities are associated with the loaned assets.

Counterparty risk is managed through holding collateral at the fund's custodian bank. Collateral consists of acceptable securities and government debt. Stock-lending commissions are remitted to the fund via the custodian. The value and type of collateral held at year end is shown in the table below.

During the period the stock is on loan, the voting rights of the loaned stock pass to the borrower.

31 March 2018 £ millions		31 March 2019 £ millions
134.491	Value of stock on loan	43.280
147.336	Value of collateral held against loaned stock	47.620

31 March 2018 %		31 March 2019 %
	Form of collateral provided	
12.0	UK Government debt	13.6
5.5	US Government debt	11.0
17.8	Euro area Governments debt	24.5
0.0	US$ denominated corporate debt	0.0
0.0	€ denominated corporate debt	0.0
6.5	UK equities	9.1
58.2	Overseas equities	41.8
0.0	Other	0.0
100.0		**100.0**

Note 22: Membership Statistics

As at 31 March	2013	2014	2015	2016	2017	2018	2019
Active scheme members	**19,446**	**21,057**	**22,020**	**22,649**	**21,550**	**21,151**	**20,485**
Pensioners							
Current (in payment)	12,636	12,460	13,871	14,779	15,421	16,322	17,326
Deferred (future liability)	15,823	17,006	17,280	20,452	22,268	25,119	26,741
Undecided leavers	3,135	3,147	3,754	2,507	3,778	2,617	2,337
Total (active plus pensioners)	**51,040**	**53,670**	**56,925**	**60,387**	**63,017**	**65,209**	**66,889**
Active members for each current pensioner	1.54	1.69	1.59	1.53	1.40	1.30	1.18

Note 23: 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 2018 £ millions		31 March 2019 £ millions
	Value of additional voluntary contributions	
4.518	Prudential	4.405
0.252	Equitable Life	0.201
4.770		**4.606**

2017/2018 £ millions		2018/2019 £ millions
	Additional voluntary contributions paid during the year	
0.353	Prudential	0.396
0.000	Equitable Life	0.000
0.353		**0.396**

Note 24: 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 Aberdeen Standard, Jupiter Asset Management, Nomura Asset Management, Amundi Asset Management and LaSalle for their parts of the fund, without referring to the county council, its officers or other member bodies. This is also the case for the fund managers that Brunel employee within the pooled funds we invest in. 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 7, 8 and 9.

<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 paid BPP Ltd £566,000 in fees for services in the 2018-2019 financial year as disclosed in note 8. The fund paid for fees in the 2019-2020 financial year before the end of the current year and as such £220,000 is within the other debtors amount of £2,657,000 shown on the Net Asset Statement.

During the year the fund did not add to the £840,000 paid for its shares in BPP Ltd during the 2017-2018 financial year. These accounts show this investment valued at cost and is disclosed separately from any other investment in note 11, note 13, note 16 and note 30.

No other related party transactions other than normal contributions, benefits and transfers occurred during the year. In note 4 we analyse the total contributions we were due to receive and benefits the fund paid for scheduled and admitted bodies.

Note 25: 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 7, 8 and 9 of these accounts.

The total actual salary and benefits paid for the financial year ended 31 March 2019 of any officer who undertake work for the fund and receives salary of greater than £50,000 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 2019 Post title	Salary (including fees and allowances) £	Compensation for loss of office £	Benefits in kind £	Total wages and benefits but not including pensions contributions 2018/19 £	Employer's pension contributions £	Total wages and benefits including pensions contributions 2018/19 £
Director of Finance and Performance						
- officer employed	33,400	-	-	33,400	4,600	38,000
- provided through consultancy	178,800	-	-	178,800	-	178,800

The member of staff employed as Director of Finance and Performance left the authority part way through the year. The annualised cost of the post (including employers pension) is £120,100. The post was filled through consultancy staff for the remainder of the year.

For comparison purposes the equivalent disclosure for the financial year ended 31 March 2018 is shown in the table below.

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 2017/18 £**	**Employer's pension contributions £**	**Total wages and benefits including pensions contributions 2017/18 £**
Director of Finance and Performance	104,000	-	-	104,000	16,100	120,100

Note 26: 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 27: Contingent liabilities

There were no contingent liabilities as at 31 March 2019

Note 28: Post balance sheet events

There were no post balance sheet events as at 30 July 2019.

Note 29: 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 11 of these accounts, the approximation of the fair value of the net of these assets and liabilities at 31 March 2019 being £2,168m.

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 16 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 20 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 2019 by the amounts shown below.

Asset class	Value of Assets £ millions	Volatility	Increase in Assets £ millions	Decrease in Assets £ millions
UK equities	453.015	17.90%	81.090	-81.090
Overseas equities	1020.603	15.30%	156.152	-156.152
UK bonds	143.994	7.70%	11.088	-11.088
Overseas bonds	104.137	13.20%	13.746	-13.746
UK index-linked bonds	73.532	7.20%	5.294	-5.294
Property	184.347	6.20%	11.430	-11.430
Cash	138.943	0.00%	0.000	0.000
Others	49.631	7.50%	3.722	-3.722
Net investment assets	**2,168.202**		**282.522**	**-282.522**

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 £138.9m 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 21 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 20 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 2019 we held £10,000 of cash collateral and paid £716,000 has been provided to counterparties as collateral by the fund and these are included within the investment balances in note 11. As it is collateral we have a liability to pay this sum back unless the counterparty fails or receive it back where we have provided the collateral, as a result we have declared an equal liability or asset in other investment balances in note 15.

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 £900m 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 20 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 30: 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

Table continued on next page

Description of Asset	Fair Value Hierarchy	Basis of Valuation	Observable and unobservable inputs	Key sensitivities affecting the valuation provided
Brunel pooled funds	Level 2	Closing bid price where bid and offer prices are available Closing single price where single price available	Quoted prices of underlying holdings of the assets held within the pooled fund	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 2019 into the 3 levels of the fair value hierarchy.

Asset Class	Level 1 £ millions	Level 2 £ millions	Level 3 £ millions	Total £ millions
UK equities	11.472			11.472
Overseas equities	503.503			503.503
Brunel pooled equity funds		958.643		958.643
Bonds	321.663			321.663
Property funds		184.347		184.347
Private Equity funds			49.993	49.993
Forward foreign-exchange contracts	-0.362			-0.362
Government bond futures	0.000			0.000
Cash	138.943			138.943
Net investment assets	**975.219**	**1,142.990**	**49.993**	**2,168.202**

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	480.984			480.984
Overseas equities	925.025			925.025
Brunel pooled equity funds				0.000
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**

There have been no transfers of assets between levels within the fair value hierarchy during the financial year ended 31 March 2019.

The following table shows a reconciliation of the movement in level 3 investments during the financial year ended 31 March 2019.

Asset class	Fair Value as at 31 March 2018 £ 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 2019 £ millions
Global private equity	39.624	0.000	0.000	8.780	-6.276	0.793	4.592	47.513
UK venture capital	1.640	0.000	0.000	0.000	0.000	0.000	0.000	1.640
Brunel	0.840	0.000	0.000	0.000	0.000	0.000	0.000	0.840
Total	**42.104**	**0.000**	**0.000**	**8.780**	**-6.276**	**0.793**	**4.592**	**49.993**

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 2019 was £958,643,000. This investment is also disclosed separately from any other investment in note 11, note 13 and note 16 and a written disclosure is made in note 24 with regard to related parties.

Note 31: Disclosures

Under IFRS the fund must disclose what consideration it has given to accounting standards that have not been adopted. For the 2018-19 accounts there are no current standards that the authority has yet to adopt.

SD Collins

Sheila Collins
Interim Finance Director
30 July 2019

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.)

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.

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.

Deferred Payment
An arrangement with a local authority that lets people use the value of their homes to help pay care home costs.

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 (MRP)
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.

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