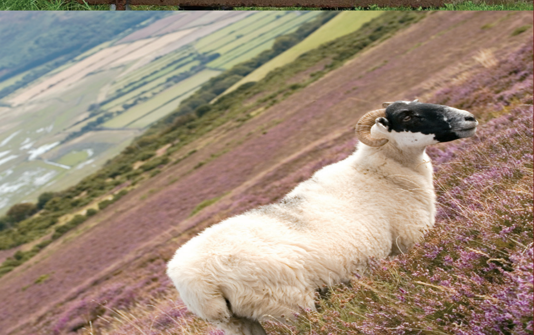
Somerset County Council

Statement of Accounts 2019/20

Accounts for Approval



Jason Vaughan
FCCA, CPFA, IRRV (Hons)
Director of Finance

County Hall, Taunton, Somerset TA1 4DY

www.somerset.gov.uk

SOMERSET
County Council

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Director of Finance's Narrative Report

Introduction

This narrative report 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.

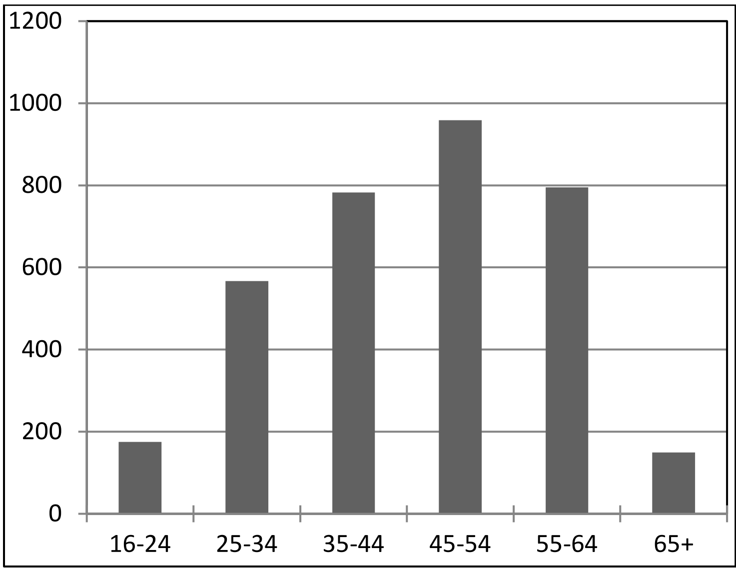
Somerset Context

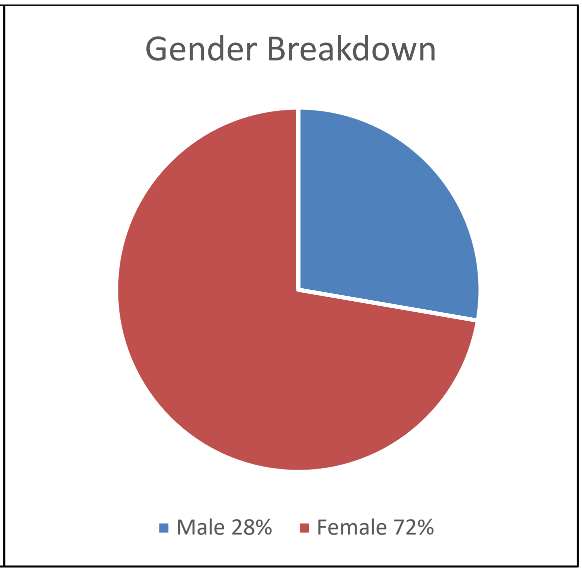
Somerset is a beautiful county with many assets including a strong and significant heritage and vast areas of countryside and moors. Somerset's population is classified as around 50% urban/town, and 50% rural, making it one of the ten most rural counties in England. One third of people live in one of the county's four largest towns: Taunton, Yeovil, Bridgwater and Frome.

The population of Somerset is approximately 560,000 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 (80.4% compared to 75.8%) with 82.7% of Somerset's residents aged 16-64 being classified as economically active. This is higher than the national average of 78.9% although average annual earnings in Somerset consistently lag behind the UK level.

People Context

Somerset County Council employed 3,428 people in full and part time contracts on 31st March 2020. Employees are a valued significant resource within the authority and employee's costs account for 32% of the total gross expenditure. The authority's workforce profile can be seen in the charts below.





Somerset County Council Governance

Somerset Council is a broad and complex organisation. Policies are directed by the political leadership (Leader and Cabinet) and implemented by the Senior Leadership Team (SLT).

Political Structure in 2019/20

The Council is made up of 55 elected councillors. The political make-up of the Council during 2019/20 was:

- Conservative Party – 33 councillors
- Liberal Democrat – 14 councillors
- Labour – 3 councillors
- Independent Group – 2 councillors
- Green Party – 2 councillors

Included within the elected councillors, there was one independent councillor.

The Council has a statutory duty to set a balanced budget and the Council's Medium-Term Financial Plan, Capital Strategy, and Treasury Management Strategy were all approved by Full Council in February 2020.

Chief Officer Structure

Councillors are supported by SLT, which is headed by the Council's Chief Executive, Patrick Flaherty. SLT is responsible for the overall management of the Council, for setting and monitoring overall direction and ensuring high performance in the delivery of council services.

SLT is supported by Individual Director's Management Team meetings (held at least monthly) and several internal Boards that have delegated functions to oversee specific programmes of work or corporate functions such as:

- Strategic Commissioning Group
- Governance Board
- Core Council Programme Board - currently suspended from meeting due to Financial Imperative
- Asset Strategy Group
- Strategic Risk Management Group

In addition to these Officer 'gateways' and internal governance arrangements, there is also the Cabinet & SLT meetings which meet monthly to review strategic matters and policy development

Further details of the governance arrangements in place during 2019/20 can be found in the Annual Governance Statement.

Performance for the year

The SCC County Vision was approved by Full Council in 2018 and the Business Plan was developed to reflect this.

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.

The most recent performance report 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	9	4	1	2	1	0
Safe, vibrant and well-balanced communities able to enjoy and benefit from the natural environment	7	2	0	1	6	0
Fairer life chances and opportunity for all	0	6	0	3	1	2
Improved health and wellbeing and more people living healthy and independent lives for longer	2	5	0	2	1	4
Meeting the Council's challenges: sustainability, quality and focus	1	0	0	0	0	0
TOTAL	**19**	**17**	**1**	**8**	**9**	**6**

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

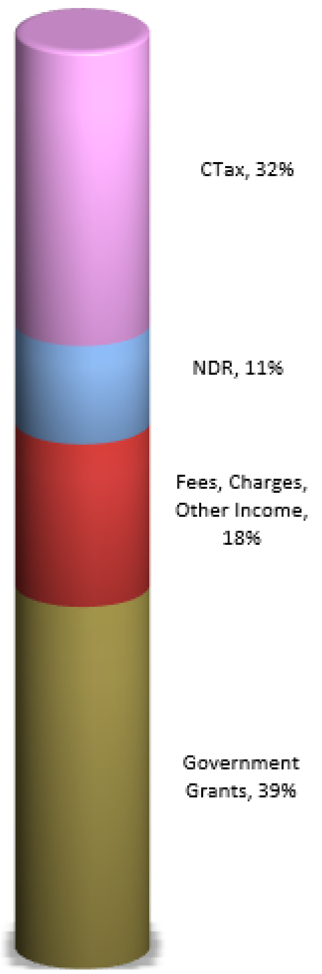
Financial Context

There no significant changes in funding mechanisms or responsibilities during 2019/20.

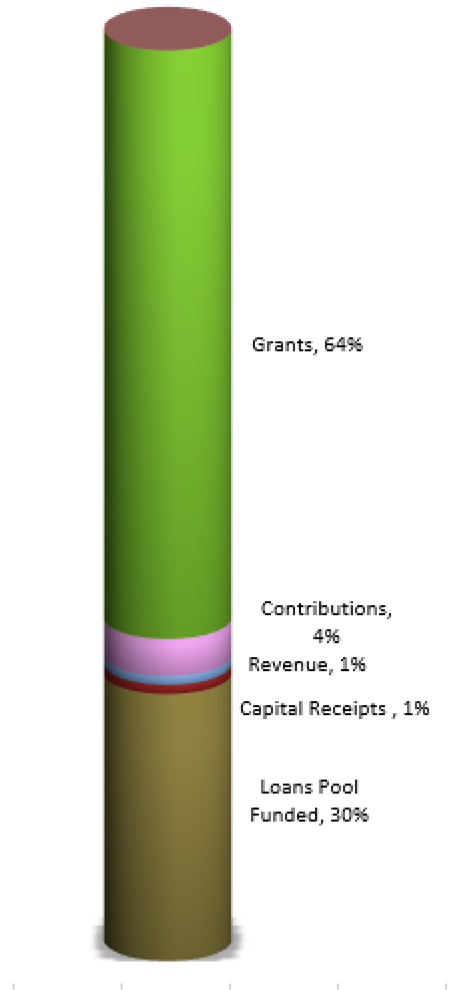
The Cabinet recognised the need for improved public accountability and transparency through significantly strengthened financial reporting during 2018/19, in terms of frequency, quality and timeliness of reports to Cabinet, Audit Committee and Scrutiny meetings. This improved approach continued throughout 2019/20 and has helped the Council to improve its Value for Money rating and approach taken in the Medium-Term Financial Plan has further improved the Councils financial resilience over the long-term whilst also supporting the delivery of the council's key priorities.

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 32% of our revenue funding needs.

Revenue



Capital



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. 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 found on their website.

Summary of Financial Performance

Revenue spending in 2019/20
In February 2019, the Authority agreed its budget for 2019/20 at £327.967million. This resulted in a band-D council tax of £1,239.73 which included an increase in Council Tax of 2.99%, an additional precept increase specifically for Adult Social Care of 1% 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 Comprehensive Income and Expenditure Statement.

Table 1: Comparison of actual spend against budget

Service	2019/20 budget £millions	2019/20 actual spend £millions	Difference £millions	Difference %
Adult Services	126.551	127.889	1.338	1.1
Childrens Services	83.340	83.751	0.411	0.5
Public Health	0.286	0.261	-0.025	-8.7
Economic & Community Infrastructure Services	65.035	62.012	-3.023	-4.6
Support Services & Trading Units	23.544	20.081	-3.463	-14.7
Accountable Bodies (LEP, SRA & CDS)	3.936	3.936	0.000	0.0
Schools	15.753	15.753	0.000	0.0
	318.445	**313.683**	**-4.762**	**-1.5**
Non-service items and in year funding deficit (costs such as bank charges that cannot be linked to a particular service)	9.522	-7.702	-17.224	-180.9
	327.967	**305.981**	**-21.986**	**-6.7**
Funded by:				
Revenue Support Grant	0	0.000	0.000	
Business Rates	-79.210	-79.210	0.000	
Council Tax	-248.757	-248.757	0.000	
	-327.967	**-327.967**	**0.000**	

The underspend for the year was £21.986m (6.7%) and this has enabled the council to further boost its reserves. Included within this underspend was £15.563m of unspent COVID-19 Support grant that is earmarked to be spent in 2020/21.

Capital spending in 2019/20

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 2019/20 our capital spending was £164.799m (£114.412m in 2018/19). The following table gives more detail on how we spent this money.

Table 2: Major Capital Schemes

Table 4: Other major capital schemes

Scheme		2019/20 £millions	£millions
Economic Community and Infrastructure	Local Enterprise Partnership	39.292	
	Road Structures	26.717	
	M5 J25 Improvements	6.819	
	Colley Lane Southern Access Road	6.413	
	iAero Centre	4.420	
	Somerset Rivers Authority	1.851	
	Street Lighting	0.992	
	Superfast Broadband	0.911	
	Other Projects	18.598	
			106.013
Children and Learning	Schools' Basic Need	26.474	
	Schools' Capital Repairs	4.888	
	General Education Provision	1.732	
	Other School Projects	0.574	
	Early Years	0.173	
	Other Children's Services	0.061	
			33.901
Somerset Waste Partnership	New Recycling Fleet	15.881	
			15.881
Support Services	CASA/OPE	6.796	
	ICT Investment & Development	1.214	
	Other Projects	0.609	
			8.619
Learning Disabilities	Housing/ Assistive Technology	0.280	
	Other Projects	0.105	
			0.385
	Total Capital Spending		164.799

Borrowing facilities

Under the Prudential Code, the Authority has set an authorised limit against which our external borrowing is monitored and managed. For 2019/20, the Operational Boundary was set at £457 million (£595 million for 2020/21). On 31 March 2020, the amount we owed was £353.5 million (£338 million in 2018/19).

On 31 March 2019 £millions	Borrowing	On 31 March 2020 £millions
160.2	Public Works Loan Board (PWLB)	162.9
170.3	Other long-term loans	183.2
7.5	Other organisations investing in the Comfund (note 34)	7.4
338.0		353.5

In line with accounting practice, the Authority must show the 'fair value' of its loans. The fair value of the PWLB loan is £229.791 million at 31 March 2020 (£229.048 million at 31 March 2019). The fair value of the other long-term loans is £295.865 million at 31 March 2020 (£260.682 million at 31 March 2019).

Significant Assets & Liabilities

The Authority has a strong Balance Sheet as at 31 March 2020 with the most significant Assets and Liabilities shown in the table below:

On 31 March 2019 £millions	Balance Sheet Extract	On 31 March 2020 £millions
909.9	Property, Plant & Equipment	945.1
145.5	Short Term Investments	127.3
35.6	Cash & Cash Equivalents	44.9
-330.5	Long term Borrowing	-346.1
-42.0	Long Term Liability - PFI/Lease	-41.0
-801.7	Long Term Liability - Pensions	-754.8
74.7	Usable Reserves	110.7
-239.8	Unusable Reserves	-203.1

Usable Reserves

On 31 March 2020 the Authority had the following reserves available:

On 31 March 2019 £millions	Reserves	On 31 March 2020 £millions
	Revenue - SCC	
17.7	General reserves	26.1
33.1	Other revenue reserves which we have set aside	69.5
	Capital - SCC	
6.1	Capital reserves	5.1
7.0	Capital Grants/Contributions Unapplied Reserves	4.0
	Revenue - Schools	
17.5	Schools' carry-forward fund	17.1
-6.7	Dedicated Schools Grant	-11.1
74.7		110.7

General reserves represent just 8% of the 2019/20 budget. This shows that the Authority needs to continue to operate within very strict financial limits.

Future Developments & Priorities

COVID-19

The Government's lockdown, announced on 20th March 2020, has had a significant impact upon the Council with significant additional costs and loss of income. These additional costs have not had a dramatic impact on the financial outturn for 2019/20 as the pandemic only started to make a notable impact on the public's and businesses' behaviour in the last two weeks of March. However, the true scale of its impact on the Council's finances will be felt during 2020/21. There have been significant additional costs in supporting our most vulnerable adults and children – some of whom may not have required our support previously. There is also the impact on transformation projects that were expected to deliver savings in 2020/21 which have been delayed and loss of income. The two major loses of income will be through Council Tax and Business Rates which will have an impact upon the 2021/22 financial year.

It is difficult to quantify the impact of COVID-19 at this stage with any certainty, but there is likely to be additional financial pressure on the Council even after the Government's emergency COVID-19 funding for local authorities is taken into account.

The Council has been improving its financial resilience in recent years by building up its reserves to deal with unforeseen circumstance. The Council is therefore in a position to draw upon its reserve to address any shortfall in 2020/21 budget.

Moving forward, the Council will reset its Medium-Term Financial Plan (MTFP) in recognition of the impact of the pandemic and the Council's strategic objectives. The COVID-19 crisis has meant that the Council has had to review what its most critical services are, and which are required to still be operational even during a global pandemic. The changing environment and "new normal" in which we are likely to find ourselves will require the Council to review the services it provides, its delivery models and the outcomes that are of the highest priority. This will also require the Council to review the structural position of its budget and how that needs to change going forward.

Future Funding
The government have announced that the Fair Funding Review (FFR) and Business Rates Retention (BRR) will not be implemented in April 2021 as originally planned. Council officers will continue to work with the Government on informing the approach to funding for the next financial year and beyond.

One Somerset
In January 2020, the Leader of Somerset County Council announced his intention for the County Council to focus on the option of developing a business case for a single unitary council for Somerset, a programme of work called 'One Somerset'.

For two years there have been regular discussions between the Leaders and Chief Executives of all five Somerset authorities, culminating in the commission and subsequent publication of an independent options appraisal, known as The Future of Local Government in Somerset (FoLGiS) Report, which reviewed alternative models, options and change opportunities to the way local government and services operate and are organised in Somerset to meet the changing needs for the county and the challenges ahead.

All councils agreed that the existing arrangements are not working well and that we cannot continue as currently organised without change. However, in late 2019, the current two-tier councils could not agree on a single option for the future, with some councils preferring to work more closely together and increase collaboration and Somerset County Council wanting to pursue a more ambitious approach.

The business case proposes the creation of a single unitary authority for Somerset that will replace both the County Council and the four District Councils. It would be a new council with councillors elected in due course by Somerset's electorate. The new Unitary Council would be responsible for all the functions and the delivery of the services which are currently provided by the County Council and four District Councils, but with a fresh new innovative approach as we continue to respond to this COVID-19 crisis. The business case was considered at the County Council meeting on 29th July 2020 where approval was granted to submit the case to the Secretary of State setting out the benefits of a new single tier model unitary structure of local government for the county of Somerset.

The Statement of Accounts

The annual Statement of Accounts sets out a summary of our financial affairs for 2019/20 and shows our financial position as at 31 March 2020. It includes the following statements and accounts:

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

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

Inspection and audit

The Authority made these accounts available for public inspection (from 1 July to 11 August) 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 were approved by our Audit Committee on 24th September 2020.

J. C. Vaughan

Jason Vaughan FCCA, CPFA, IRRV (Hons)
Director of Finance
(Chief Financial Officer)
24th September 2020

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 2020 and its income and spending for the year ending on that date.

J. C. Vaughan

Jason Vaughan FCCA, CPFA, IRRV (Hons)
Director of Finance
(Chief Financial Officer)

24th September 2020

Independent Auditor's Report

to the Members of
Somerset County Council

The audit report will appear here.

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Somerset County Council

Annual Governance Statement

for year ended 31 March 2020

Foreword

“To ensure that Somerset and its people are supported and enabled to fulfil their potential, prosper and achieve a high standard of well-being”.

This is the Council’s stated purpose as contained in the Council Plan for 2018-22. The Plan sets out what we will do to achieve this, continuing to look for ways to improve services and, as far as possible, prioritising frontline services against a background of shrinking public sector finances while at the same time, planning for a sustainable future.

Effective corporate governance is essential to support the Council in meeting these challenges.

All who use our services and all who pay for them, together with our suppliers and partners, must be able to have confidence in our governance arrangements - that our ways of working enable us to provide the right services effectively and efficiently and on a consistent basis, and that we take informed, transparent and lawful decisions. They must also be assured that we properly account for the money we receive and spend.

While our corporate governance arrangements have been effective in supporting the Council through the many changes it has gone through in recent years, we will ensure that this continues to be the case in 2019-20 and into future years as we continue to meet our challenges.

As always, there are some opportunities for improvement which have been identified as a result of our monitoring and review arrangements. We will ensure that the necessary action is taken to address these.

Pat Flaherty,
Chief Executive

Councillor David Fothergill,
Leader

What is Corporate Governance?

Corporate governance refers to the processes by which organisations are directed, controlled, led and held to account. It is also about culture and values - the way that councillors and employees think and act.

The Council's corporate governance arrangements aim to ensure that it does the right things in the right way for the right people in a way that is timely, inclusive, open, honest and accountable.

What this Statement tells you

This Statement describes the extent to which the Council has, for the year ended 31 March 2020, complied with its Governance Code and the requirements of the Accounts and Audit (Wales) Regulations 2014. It also describes how the effectiveness of the governance arrangements has been monitored and evaluated during the year and sets out any changes planned for the 2019-20 period.

The Statement has been prepared in accordance with guidance produced in 2016 by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives and Senior Managers (SOLACE) - the 'Delivering Good Governance in Local Government Framework'. It embraces the elements of internal control required by the 'Code of Practice on Local Authority Accounting in the United Kingdom'.

1. The Council's Governance Responsibilities

The Council is responsible for ensuring it conducts its business in accordance with the law and to proper standards and that public money is properly accounted for and is used economically, efficiently and effectively. It also has a duty to continuously improve the way that it functions, having regard to effectiveness, quality, service availability, fairness, sustainability, efficiency and innovation.

To meet these responsibilities, the Council acknowledges that it has a duty to have in place sound and proper arrangements for the governance of its affairs, including a reliable system of internal control[1], and for reviewing the effectiveness of those arrangements.

The Council's Governance Code, which was developed in accordance with the governance guidance produced by CIPFA and SOLACE, states the importance to the Council of good corporate governance and sets out its commitment to the principles involved. The Code is on our website, or can be obtained from the Monitoring Officer or Director of Finance.

Somerset County County Council Governance Code (2017)
Our commitment to good governance is made across the following core principles:
A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
B. Ensuring openness and comprehensive stakeholder engagement.
C. Defining outcomes in terms of sustainable economic, social, and environmental benefits.
D. Determining the interventions necessary to optimise the achievement of intended outcomes.
E. Developing the Council's capacity, including the capability of its leadership and the individuals within it.
F. Managing risks and performance through robust internal control and strong public financial management
G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

[1] A process to ensure that objectives will be achieved

2. The Governance Framework

The governance framework consists of the systems and processes by which the Council is directed and controlled and through which it accounts to, engages with and leads the community. It also includes our values and culture.

It enables us to monitor the achievement of our objectives and to consider whether these have led to the delivery of appropriate, cost effective services. The Framework is summarised in the diagram overleaf.

As the Council improves the way it provides services, it is important that the governance arrangements remain robust but also flexible and proportionate.

In order to review the effectiveness of the governance framework, assurances are provided to, and challenged by, the Senior Leadership Team, the Audit Committee, Constitution & Standards Committee, Scrutiny Committees, the Cabinet or Council as appropriate.

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.

Some of the key elements of the governance framework are highlighted on the next pages.

The Governance Framework cannot eliminate all risk of failure to meet the targets in our policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

Purpose: 'To ensure that Somerset and its people are supported and enabled to fulfil their potential, prosper and achieve a high standard of well-being'

Governance Review & Assurance

Assurance Required on:

- Delivery of Council Plan
- Communication of performance
- Financial management
- Service quality and best use of resources
- Any failures in service delivery addressed effectively
- Councillors and Officers working together effectively
- Compliance with laws and regulations, policies and procedures
- High standards of conduct and behaviour
- Informed and transparent decision making
- Management of risk and effective internal controls
- Developing the capacity and capability of members and employees
- Democratic engagement and robust public accountability

Sources of Assurance

- Planning principles for services and Somerset Way of Working
- Constitution
- Strategic Leadership and Senior Management structures
- Medium Term Financial Strategy
- Financial Regs and Procedure Rules
- Contract Procedure Rules
- Commissioning Plans and, Procurement Strategy
- Consultation Strategy
- Communications Plans
- Equality Plan
- Organisational Development and Workforce policies and plans
- Corporate Performance
- Information Management policies
- ICT & Digital Strategy
- Health and Safety Policy
- Risk Management Policy
- Partnership Working
- Internal & External Audit and inspection
- Anti Fraud and Corruption Policy & Procedures
- Audit and Constitution & Standards committees
- Codes of Conduct (Employees and Members)
- Whistleblowing Policy
- Performance Review and Development
- Complaints system

Assurances Received

- Statement of Accounts
- 'Focused on Our Performance' self-evaluation of progress against Council Plan
- External Audit and Inspection reporting
- Internal Audit reporting
- Risk and Control Registers and Risk Management Reporting
- Directors' Internal Control Assurances
- Anti Fraud and Corruption Annual Report
- Scrutiny Reviews
- Reviews commissioned by management
- Annual review of the Constitution, Contract Standing Orders and Scheme of Delegation
- Peer Reviews
- Ongoing review by Governance Board of Corporate Governance and of gaps in assurance
- Governance Code and Framework review

Opportunities for Improvement

- Health & Safety
- Sustaining robust ICT infrastructure

Annual Governance Statement

GOVERNANCE FRAMEWORK

The Council Plan

The Council Plan for 2018-22 sets out our overall purpose - 'to ensure that Somerset and its people are supported and enabled to fulfil their potential, prosper and achieve a high standard of well-being'. It helps us to focus our resources and drive improvement, and sets out where we will focus our energies and our increasingly limited resources and how we will judge our performance.

The Plan sets out seven principles which we consider in the planning and delivery of services (see next page).

The Plan is the means by which the Council sets out how objectives will contribute to the wellbeing goals for Somerset and how they will be achieved. Objectives and target outcomes are set within three strategic themes – Economy, People and Place – and the corporate theme of Organisation. 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.

Evaluating Performance

The Council's Business Plan was originally approved by Cabinet in June 2018 (and updated 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.

Performance is regularly reviewed by Directors and the Senior Leadership Team. Regular performance reports are presented to the Cabinet and available for review by scrutiny committees. An annual performance outturn report is reported to Cabinet.

Both our external and internal auditors assess the Council's arrangements for delivering continuous improvement and subsequent performance.

The Council's schools, education and training services are assessed by Ofsted on an ongoing schedule, and our social services are subject to ongoing review by the Care Quality Commission.

Social Media - Join The Conversation!

Join the conversation on all aspects of Somerset Council services and activities.

The Council provides its customers access to our services and information in the most appropriate Social Media channels.

Managing Risk

The management of risk is key to achieving what is set out in the Council Plan and to ensuring that we meet all of our responsibilities.

Our Risk Management Policy is fundamental to the system of internal control and forms part of a sound business operating model. It involves an ongoing process to identify risks and to prioritise them according to likelihood and impact.

Members and senior management identify the principal risks to the Council Plan's outcomes. These, together with the significant risks to planning and delivering services are recorded in risk registers, which also record the controls necessary to manage the risks.

The registers are regularly reviewed and challenged by senior management and by the Audit Committee in order to ensure that, as far as possible all significant risks have been identified and that the controls manage the risks efficiently, effectively and economically.

All members and managers are responsible for ensuring that risk implications are considered in the decisions they take. This is especially important in meeting the Council's financial challenges.

'Brexit'

At the time of writing this Statement, the nature of the UK's withdrawal from the European Union is still uncertain. The Council has nevertheless considered the risks of this across its range of services. The risks are regularly reviewed and updated as the situation develops and where necessary, suitable mitigating action will be implemented.

Covid 19

A significant emerging risk for Somerset is the emergency response and management of the Covid 19 global pandemic. A major incident and emergency was declared by the ASLRF in mid March 2020. This critical strategic risk is outlined further in the 2020/21 risks on page 32.

Principal Risks 2019-20

1. Maintaining a balanced budget and ensuring a sustainable MTFP.
2. Those to whom the Council owes a duty of care suffer a preventable death, serious injury or serious abuse
3. Fail to deliver our statutory service duties in relation to vulnerable children
4. ICT failure of essential business systems
5. Revenue and capital resources are insufficient to achieve stated priorities and meet obligations at a time of increasing demand for services
6. The Council lacks the knowledge, skills, capacity, culture and ability to continue to meet its priorities and responsibilities
7. Failure to effectively monitor and manage our markets for value for money and protect against provider or supply chain failure
8. Data protection and GDPR breaches
9. Inconsistent and inefficient commissioning of services
10. Business continuity failure or a major civil emergency results in loss of life and disruption to services
11. Disruption to services by Brexit

Decision Making and Responsibilities

The Council consists of 55 elected Members, with a Cabinet of Lead Members who are supported and held to account by three Scrutiny Committees and the Audit Committee.

Our Constitution sets out how the Council operates, how decisions are made and the procedures for ensuring that the Council is efficient, transparent and accountable to local people. It contains the basic rules governing the Council's business, and a section on responsibility for functions, which includes a list of functions which may be exercised by officers. It also contains the rules, protocols and codes of practice under which the Council, its Members and officers operate.

It is updated annually to take account of changing circumstances, legislative changes and business needs.

The Constitution sets out the functions of key governance officers, including the statutory posts of 'Head of Paid Service' (Chief Executive) , 'Monitoring Officer' (Strategic Manager – Governance) and 'Section 151 Officer' (Director of Finance) and explains the role of these officers in ensuring that processes are in place for enabling the Council to meet its statutory obligations and also for providing advice to Members, officers and committees on staff management, financial, legal and ethical governance issues.

Open Policy and Decision-making

All Council, Executive Board and Planning Committee meetings can be viewed live on the website's webcasting page and the webcasts are accessible for six months.

Also, meetings of the Council, Executive Board and the main Committees are open to the public except where exempt or confidential matters are being discussed, and all reports considered and the minutes of decisions taken are, unless confidential, made available on the Council's website.

The Council's Forward Work Programmes contain information about all matters that are likely to be the subject of a decision taken by the full Council or the Executive Board during the forthcoming four month period. They also contain information about matters that will be considered by the Scrutiny Committees.

Equality

The Council is committed to delivering equality and improving the quality of life for the people of Somerset County . Our Equalities Plan helps us to ensure that we prioritise those who may be vulnerable to discrimination.

Any new Council policy, proposal or service, or any change to these that affects people must be the subject of an Equality Impact Assessment to ensure that equality issues have been consciously considered throughout the decision making processes.

Financial Management

The Director of Finance is responsible for the proper administration of the Council's financial affairs, as required by Section 151 of the Local Government Act 1972, and our financial management arrangements are compliant with the governance requirements set out in the Chartered Institute of Public Finance and Accountancy's
'Statement on the Role of the Chief Financial Officer in Local Government' (2016).

There are robust arrangements for effective financial control through our accounting procedures, key financial systems and the Financial Regulations. These include established budget planning procedures, which are subject to risk assessment, and bi-monthly budget / actual reports to all Members.

Our Treasury Management arrangements, where the Council invests and borrows funds to meet its operating requirements, follow professional practice and are subject to regular review and are reported to Cabinet and the Council.

The Reserves Strategy enables the Council to meet its statutory requirements and sets out the different types of reserve, how they may be used and the monitoring arrangements.

The Medium Term Financial Plan sets out the Council's strategic approach to the management of its finances and outlines some of the financial issues that we will face over the next three years. This Plan is subject to review by the Scrutiny Committees and Cabinet ahead of approval by the Council every February.

Despite our established success in delivering savings, like many councils, the Council faces the challenge of designing a sustainable budget for the future in the face of continuing Government reductions to local government funding. We estimate a funding shortfall of around £9.4m over the period 2019-20 - 2022-23. We have therefore developed a Transformation Programme to improve efficiency and reshape our services whilst maintaining our commitment to the most vulnerable. This involves taking a fundamental look at all areas of the Council's work, reprioritising services, reducing services, ceasing services, considering different ways of delivering services and working more effectively with other organisations.

The current annual budget is available on our website and is regularly reviewed by the Senior Leadership Team, Scrutiny and the Cabinet.

Budget engagement has been conducted for several years to increase public understanding of the scale the financial challenges, explain what is being done to save money and to obtain opinion on proposals for further savings.

The results are taken account of by members when making the final decisions on the budget.

There is regular monitoring, review and management of budgets through the SLT (financial imperative programme), Scrutiny Place and Cabinet. The MTFP process has also been subject to business change and audit review.

Commissioning and Procurement of Goods and Services

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 commissioning activity, the group is attended by key commissioning specialists and key officers from support services. The SCG reviews all proposals for new strategic projects, including new contracts, scrutinising and managing Commissioning Gateway activity with a strong focus on financial savings, accountability, evidence led commissioning and delivery outcomes.

The Council recognises the value of considering different service delivery options in delivering our Council Plan. The effective commissioning and procurement of goods, works and services is therefore of strategic importance to our operations, while robust contract management helps to provide value for money and ensure that outcomes and outputs are delivered.

Our Commissioning Plans and Procurement Strategy set out the vision and direction for commissioning, procurement and contract management across the Council.

Operational procedures for tendering, contract letting, contract management and the use of consultants are included in the Contract Procedure Rules which form part of the Council's Constitution.

Managing Information

In order to set a direction for the effective governance, efficient management and use of information and data under its control, the Council's Information Management Strategy explains how the we will deal with the creation, storage, access, protection and lifecycle of information and data.

Information is central to the Council and its decision making processes and it therefore needs to be accurate and accessible to those who need it at the time and place that is required. The Council also recognises that it has a responsibility to safeguard the information it holds and to manage it with care and accountability.

In order to ensure that we are meeting the requirements of the General Data Protection Regulation regarding the collection, use and transfer of personal data, a Corporate Project was established in 2017 to ensure compliance across all parts of the Council's activities and to raise awareness amongst all staff.

Freedom of Information

Details of how to access information held by the Council and its Freedom of Information Policy are available on the Council's website.

Audit and Audit Assurances

The Council is externally audited by its External Auditors. Their annual audit includes examining and certifying whether the financial statements are 'true and fair', and assessing our arrangements for securing economy, efficiency and effectiveness in the use of resources. In 2018 the External Auditor gave an unqualified audit opinion on the financial statements.

The Internal Audit Service is a key means of assurance. It is responsible for reviewing the adequacy of the controls throughout all areas of the Council and is managed and delivered in accordance with the Public Sector Internal Audit Standards (PSIAS).

The Audit Committee approve the Internal Audit Plan, which sets out the Internal Audit role and its responsibilities and clarifies its independence, and the planned audit coverage.

The Head of Internal Audit's annual opinion as to the effectiveness of the Council's internal control environment for 2018-19 was:

"I am able to give assurance to the Audit Committee and management that the Council's control environment is generally effective in achieving the organisation's objectives."

The opinion notes, however, that there is an ongoing need across the Council to ensure awareness of and compliance with corporate policies and procedures and to ensure that governance processes are effective in delivering agreed outcomes in support of the Council Plan.

The **Audit Committee** provides independent assurance on the Council's internal control environment. It is a statutory requirement and consists of 8 Councillors appointed annually on a politically balanced basis by the Council.

Its main functions include:

- Agreeing the Annual Governance Statement and the Annual Statement of Accounts,
- Overseeing Internal Audit's independence, objectivity, performance and professionalism and supporting the effectiveness of Internal Audit
- Considering Internal Audit partial assurance reports and management responses
- Considering the effectiveness of Risk Management, including the risks of bribery, fraud and corruption
- Monitor the effectiveness of value for money arrangements
- Considering the reports of External Auditors and Inspectors.

The Audit Committee reports annually to the Council as part of its assurance.

Conduct

Our Codes of Conduct for Members and for Employees set out the standards of conduct and behaviour that are required. They are regularly reviewed and updated as necessary and both groups are regularly reminded of the requirements.

These include the need for Members and Officers to register personal interests and the requirements for registering offers or acceptance of gifts and hospitality, outside commitments and personal interests.

The Nolan Principles for conduct and behaviour:

- **Selflessness**
- **Integrity**
- **Objectivity**
- **Accountability**
- **Openness**
- **Honesty**
- **Leadership**

Whistleblowing

People who work for or with the Council are often the first to realise that there may be something wrong within the Council. However, they may feel unable to express their concerns for various reasons, including the fear of victimisation.

The Council has a Whistleblowing Policy that advises staff and others who work for the Council how to raise concerns about activities in the workplace. Full details are provided on the Council's website.

Anti-Fraud and Corruption

We recognise that as well as causing financial loss, fraud and corruption also detrimentally impact service provision and morale, and undermine confidence in the Council's governance and that of public bodies generally.

There is little evidence that the *incidence* of fraud is currently a major issue for the Council, but the *risk* is increasing nationally. We therefore regularly assess how vulnerable our services are to fraud and corruption risks and we update our counter fraud arrangements accordingly.

The Council reviews its Anti Fraud and Corruption Policy on an annual basis and has adopted a 'zero tolerance' in relation to fraud and corruption. Our policy sets out what we will do to maintain this commitment in light of the risk

The results of our risk-based Anti Fraud approach are reported annually to the Audit Committee, and the resources available for investigation are subject to ongoing review to ensure that they remain appropriate to the risk of fraud.

Our website tells you how you can report suspected fraud against the Council.

'zero tolerance'

Whenever the Council identifies instances of fraud, bribery or corruption against it, it will always take legal and / or disciplinary action against the perpetrator and seek recovery and redress.

3. Improving Governance

The progress made during 2019- 20 on the significant issues identified in our 2018-19 Annual Governance Statement is shown below:

1.	**The Council's Financial Position** - recognition of the significant progress in turning around the financial position in 2018/19. More to be done to secure financial sustainability. Ongoing review and management actions to address the recommendations from the Value for Money external audit opinion	The Council set a balanced budget for 2020/21 and agreed a Medium Term Financial Plan with a modest budget gap over a three year period. Will continue to lobby as part of CSR 2020. VfM tracker regular reviewed and actions progressed to deliver recommendations. Progress monitored by Audit Committee.
2.	**Local Government Reorganisation** Preliminary work carried out with partners and the need to establish a way forward.	Leader of the Council approved work to be undertaken to develop a Business Case for a potential unitary bid submission in 2020/21.
3.	**Healthy Organisation** Recognition of the improvements required to improve upon medium level of assurance from Internal Auditors.	Governance Board maintaining oversight and review with Internal Audit support regarding the necessary improvements and actions required.
4.	**Improving Lives Programme** 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 and better outcomes.	Transformation programme and project governance in place utlising Finance Imperative Programme approach with regular oversight from Senior Leadership Team.

Based on our review of the governance framework, the following significant issues will be addressed in 2020-21:

1. **Financial Position** (See previous page)	We will continue to lobby for fairer funding as part of the CSR 2020 and develop a sustainable Medium Term Financial Plan for consideration by Council in February 2021.
2. **Local Government Reorganisation** Development and potential submission of Business Case for unitary local government for Somerset.	Resources in place to develop a Business Case for consideration by the Council for potential submission to the Sec of State during 2020/21 as part of the process leading to the proposed formation of unitary local government for Somerset.
3. Covid 19 Working with national and local agencies such as the Government, Police, NHS, district councils, voluntary organisations and service providers to ensure essential services continue to be delivered to support vulnerable children and adults, local communities and businesses throughout the Covid 19 emergency.	Avon and Somerset Local Resilience Forum and Somerset Tactical Group regularly reviewing and managing emergency response and service delivery by agencies. Emergency arrangements and management actions regularly reviewed by the Senior Leadership Team, Cabinet and Scrutiny Place.

These issues will be supported by an action plan, progress on which will be monitored during 2020-21 by the Governance Board and the Senior Leadership Team. Oversight, constructive challenge and review will be available from the Cabinet, Scrutiny Place and the Audit Committee.

No other major changes to the Council's governance framework are planned for 2020-21, but we will continue to review and adapt it so that it continues to support the Council in meeting its challenge and in fulfilling is purpose, and ensure that the framework remains proportionate to the risks that are faced.

We will also continue to raise awareness of the Governance Framework and its requirements with employees across the Council, in schools and with elected Members.

4. Assurance

Subject to the above issues being resolved, we can provide an overall assurance that Somerset County Council's governance arrangements are effective and remain fit for purpose.

We propose over the coming year to take steps to address the issues set out above to further enhance our governance arrangements.

We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed: ______________________ Date: 7 July 2020

(Chief Executive)

Signed: ______________________ Date: 1 July 2020

(Leader)

Contact Officers: Scott Wooldridge, Monitoring Officer and Jason Vaughan, Director of Finance

Statement of Accounting Policies

This section summarises the accounting rules and conventions the Authority has used in preparing these accounts.

1 General

The Statement of Accounts summarises the Authority's transactions for the 2019/20 financial year and its position at the year-end of 31 March 2020. 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 2019/20, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the 2003 Act.

On 3 April 2020, the Ministry of Housing, Communities and Local Government (MHCLG) confirmed the details of changes made to the Accounts and Audit Regulations 2015 due to the COVID19 pandemic. The Accounts and Audit (Coronavirus) Amendments Regulations 2020 (SI/2020/404) extended the statutory audit deadline for 2019/20 for all local authorities from 31 July to 30 November 2020.

The Statement of Accounts has been prepared on a 'going concern' basis. 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 goods or the provision of services, 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 values are 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, that 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 must 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 accrual's 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 Teachers Pensions on behalf of the Department for Education (DfE);
2) The Local Government Pension Scheme, administered by Somerset County Council;
3) The NHS Pension Scheme, administered by the NHS Business Service Authority; and
4) The National Employment Savings Trust (NEST), administered by the NEST Corporation.

These schemes provide defined benefits to members (retirement lump sums and pensions), earned through employment in the Authority. However, the arrangements for the Teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Authority. The scheme is therefore accounted for as if it 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 future earnings for current employees;

- Liabilities are discounted to their value at current prices, using a discount rate of 2.35% (based on the annualised yield at the 21-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

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 51.

9 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

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.

- Financial Assets Measured at Amortised Cost

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 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.

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. No adjustment was made within the matrix for forward-looking estimates of expected credit loss as the Authority's debt management process 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, though the unprecedented impact of COVID19 and subsequent lockdown has been considered.

The matrix confirmed that historically, a very small element of Authority debt (in relation to trade receivables) has been 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 in excess of the amounts eventually written-off.

Given the historically low level of debt write-off within the Authority, the presumption in paragraph 7.2.9.11 of the Code, that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due, has been rebutted.

The Authority is 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:

<table>
<tr><th>Age of Debt</th><th>Firm Recovery Arrangements in Place</th><th>Actively pursuing</th><th>Write Off</th><th>Impairment</th></tr>
<tr><td>0 – 364 days</td><td colspan="4">Service to make appropriate impairment based on knowledge and judgement of the debt</td></tr>
<tr><td>365 days +</td><td>No</td><td>Yes</td><td>No</td><td>Yes - 100%</td></tr>
<tr><td>365 days +</td><td>No</td><td>No</td><td>Yes</td><td>No</td></tr>
<tr><td>365 days + (payment plans)</td><td>Yes</td><td colspan="3">Service to make appropriate impairment based on knowledge and judgement of the debt</td></tr>
</table>

Further details of the Authority’s debt management process and COVID19 assessment can be found in the Credit and Counterparty risk section of Note 35 and the Estimation Uncertainty Note 4.

For trade receivables, which are reported net, such losses 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.

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

- <u>Financial Assets Measures at Fair value Through Profit or Loss (FVPL)</u>

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.

10 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 are disclosed in Note 28.

11 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.

12 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 recognised 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.

<u>Operating Leases</u>

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 appropriate service 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.

13 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 they are purchased.

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; 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), the Authority de-recognises the carrying amount of the old component if material.

Measurement

Property, plant and equipment are initially measured at cost on an accrual's 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	Current value	Existing Use Value (EUV)
Buildings – Non Schools	Current value	Existing Use Value (EUV)
Buildings – Schools	Current 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.

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.

Further details on how the COVID-19 pandemic has impacted on the Authorities asset portfolio can be found in Note 3 Critical Judgments.

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 the Authority expects to use them, with the charge being allocated to the Surplus or Deficit on the Provision of Services. For assets with material components that have different useful lives, each component is depreciated separately (see Componentisation below). Typically, the Authority uses the following useful lives for our assets for depreciation purposes:

Type	**Useful life**
Freehold land	Indefinite, so 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 2019/20, 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 have chosed 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, the Authority assesses whether there is any indication that an asset may be impaired, for example there is evidence of physical damage or obsolescence of an asset. As assessment is also carried out to consider 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.

14 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.

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 on a straight-line basis 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.

15 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. The Authority is of the opinion that it 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.

16 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.

17 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 (53 within our boundary);
- Voluntary aided (31 within our boundary); and
- Foundation (5 within our boundary).

The remaining type of state school, an Academy, (of which there are 110 within our boundary) receives its funding direct from Central Government.

The Code confirms that the balance of control for local authority-maintained schools lies with the local authority. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements (and not the group accounts). Therefore, schools' transactions, cash flows and balances are recognised in each of the financial statements of the authority as if they were the transactions, cash flows and balances of the Authority.

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.

<u>Schools Non-Current Assets</u>

With regards to the recognition of Schools Non-Current Assets (such as land and buildings), The Code requires the Authority to consider the asset recognition tests relevant to the specific arrangements that prevail for the property.

To assist local authorities, LAAP Bulletin 101 – Accounting for Non-Current Assets used by LA Maintained Schools, identifies three arrangements in existence that need to be considered:

- A freehold interest in the property;

For these arrangements, the Authority considers Section 4.1 of the Code and adopts the rules set out in IAS16 Property, Plant and Equipment (see Accounting Policy 13 for more details)

- A leasehold interest in the property;

For these arrangements, the Authority considers Section 4.2 of the Code and adopts the rules set out in IAS17 Leases (see Accounting Policy 12 for more details), and

- Occupation of the property under a mere licence.

Under these arrangements, neither the Local Authority nor the schools governing body retain any substantive rights to the property.

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 21 for further details).

18 Provisions

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

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

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

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

19 Contingent Liabilities

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

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

20 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.

21 Revenue Expenditure Funded from Capital Under Statute (REFCUS)

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

22 Private Finance Initiative (PFI) and Similar Contracts

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

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

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

- Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement;
- Finance cost – an interest charge of 9.6% 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 – changes in the amount to be paid for the property arising during the contract, debited/credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease); and

- Life-cycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to property, plant and equipment when the relevant works are eventually carried out.

23 Value Added Tax

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

24 Inventories

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

25 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.

26 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.

27 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, the Authority can only use capital receipts from the disposal of property, plant and equipment assets received in the years in which this flexibility is offered. The use of existing capital receipts stock (recognised prior to 1st April 2016) to finance the revenue costs of reform is not permitted. The amounts funded from capital receipts under this direction during 2019/20 can be found in the Adjustments between accounting basis and funding basis under regulation note 10 to the accounts.

28 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 (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.

29 Joint Operations

Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the authority in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the authority as a joint operator recognises:

- Its assets, including its share of any assets held jointly;
- Its liabilities, including its share of any liabilities incurred jointly;
- Its revenue from the sale of its share of the output arising from the joint operation;
- Its share of the revenue from the sale of the output by the joint operation; and
- Its expenses, including its share of any expenses incurred jointly.

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 2019 Gross Expenditure (Restated) £millions	31 March 2019 Gross Income (Restated) £millions	31 March 2019 Net Expenditure (Restated) £millions	Comprehensive Income and Expenditure Statement for the year ended 31 March	31 March 2020 Gross Expenditure £millions	31 March 2020 Gross Income £millions	31 March 2020 Net Expenditure £millions	Notes
			Continuing Operations				
223.427	-95.559	127.868	Adult Services	225.922	-94.674	131.248	6
156.401	-61.775	94.626	Children's Services	155.091	-61.388	93.703	6
124.448	-44.707	79.741	Economic and Community Infrastructure Services	127.263	-46.080	81.183	6
22.355	-22.075	0.280	Public Health	22.437	-22.201	0.236	6
47.698	-7.966	39.732	Corporate & Support Services (inc Corporate Contingencies)	30.775	-7.975	22.800	6
26.478	-24.113	2.365	Accountable Bodies (LEP/SRA/CDS)	45.702	-45.748	-0.046	6
229.416	-199.505	29.911	Individual Schools Budget	213.177	-190.185	22.992	6
830.223	**-455.700**	**374.523**	**Surplus (-) / Deficit on Continuing Operations**	**820.367**	**-468.251**	**352.116**	
38.410	-	38.410	Other operating expenditure	45.273	-	45.273	12
48.885	-9.303	39.582	Financing and investment income and expenditure	45.006	-8.582	36.424	13
-	-398.207	-398.207	Taxation and non-specific grant income	-	-425.477	-425.477	14
917.518	**-863.210**	**54.308**	**Surplus (-) or Deficit on Provision of Services**	**910.646**	**-902.310**	**8.336**	
			Items that will not be reclassified to the (Surplus) or Deficit on the Provision of Services				
		-13.257	Surplus (-) or Deficit on revaluation of non-current assets			-7.248	15
		-44.537	Remeasurement gains (-) / losses on pension assets/liabilities			-73.786	51
		-57.794	**Other Comprehensive Income and Expenditure**			**-81.034**	
		-3.486	**Total Comprehensive Income and Expenditure**			**-72.698**	

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 2019 & 2020	Note	Revenue Reserve General Fund (inc. Earmarked Reserves) Balance £m	Capital Reserves Capital Receipts Reserve £m	Capital Reserves Capital Grants & Contributions Unapplied £m	Total Usable Reserves £m	Unusable Reserves £m	Total Authority Reserves £m
Balance as at 1 April 2018	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	15/51	-	-	-	-	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 carried forward	42/43	**61.651**	**6.066**	**6.990**	**74.707**	**-239.826**	**-165.119**
Movement in Reserves during 2019/20							
Surplus or deficit (-) on provision of services		-8.336	-	-	-8.336	-	-8.336
Other Comprehensive Income and Expenditure	15/51	-	-	-	-	81.034	81.034
Total Comprehensive Income and Expenditure		**-8.336**	**-**	**-**	**-8.336**	**81.034**	**72.698**
Adjustments between accounting basis & funding basis under regulations	10	48.333	-1.002	-2.982	44.349	-44.349	-
Increase/Decrease (-) in Year		**39.997**	**-1.002**	**-2.982**	**36.013**	**36.685**	**72.698**
Balance as at 31 March 2020	42/43	**101.648**	**5.064**	**4.008**	**110.720**	**-203.141**	**-92.421**

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

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

31 March 2019 £millions	Balance Sheet	31 March 2020 £millions	Notes
909.920	Property, Plant & Equipment	945.134	24
1.934	Heritage assets	1.934	31
3.123	Intangible Non-Current assets	1.940	25
14.883	Long term investments	14.077	34
20.707	Long term debtors	20.779	34
950.567	**Long term assets**	**983.864**	
145.509	Short term Investments	127.346	34
0.877	Assets held for sale	1.262	27
7.884	Inventories	7.510	36
53.260	Short term debtors	48.046	37
38.451	Cash and cash equivalents	46.657	44
245.981	**Current Assets**	**230.821**	
-68.085	Short term creditors	-75.525	38
-1.429	Revenue Grants/Contributions Receipts in Advance	-8.546	41
-70.391	Capital Grants/Contributions Receipts in Advance	-38.925	41
-4.356	Long term borrowing repayable < I year	-5.825	34
-7.225	Provisions	-7.895	40
-7.480	Short term borrowing	-7.395	34
-2.884	Overdraft	-1.716	44
-161.850	**Current Liabilities**	**-145.827**	
-0.256	Provisions	-0.300	40
-326.188	Long term borrowing repayable > I year	-340.336	34
-843.642	Other long term liabilities	-795.767	39
-9.265	Revenue Grants/Contributions Receipts in Advance	-11.211	41
-20.466	Capital Grants/Contributions Receipts in Advance	-13.665	41
-1,199.817	**Long term liabilities**	**-1,161.279**	
-165.119	**Net Assets**	**-92.421**	
74.707	Usable reserves	110.720	42
-239.826	Unusable Reserves	-203.141	43
-165.119	**Total Reserves**	**-92.421**	

J. C. Vaughan

Jason Vaughan FCCA, CPFA, IRRV (Hons)
Director of Finance
(Chief Financial Officer)
24th September 2020

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 are 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.

2018/19 £millions		2019/20 £millions	Notes
54.308	Net surplus (-) or deficit on the provision of services	8.336	
-135.876	Adjustments to net surplus or deficit on the provision of services for non cash movements	-124.535	45
105.130	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	112.567	45
23.562	Net cash flows from Operating Activities	**-3.632**	45
-42.265	Investing Activities	8.895	46
7.185	Financing Activities	-14.637	47
-11.518	**Net increase (-) or decrease in cash and cash equivalents**	**-9.374**	
24.049	**Cash and cash equivalents at the beginning of the reporting period**	**35.567**	
35.567	**Cash and cash equivalents at the end of the reporting period**	**44.941**	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

<u>Comprehensive Income & Expenditure Statement – Change In Service Reporting</u>

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 2019/20, the Authority changed the way it reported 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 remain unchanged when compared to the 2018/19 position reported in last year's accounts. The changes can be described as:

- The service heading for 'Adults and Health' has been renamed, and is now being reported as 'Adult Services';
- The service headings for 'Children and Families' and 'Children and Learning' have been combined and are now being reported as 'Children's Services';
- The financial position for the Local Enterprise Partnership (LEP); Somerset Rivers Authority (SRA) and Connecting Devon & Somerset (CDS) previously included within the service heading for Economic & Community Infrastructure are being reported separately under the service heading 'Accountable Bodies (LEP/SRA/CDS)'.

The restatement movements can be seen in the following table:

Comprehensive Income and Expenditure Statement for the year ended 31 March 2019	As reported in the 2018/19 accounts 31 March 2019				As Restated 31 March 2019		
	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	223.427	-95.559	127.868	-127.868	-	-	-
Children & Families	74.167	-5.105	69.062	-69.062	-	-	-
Children and Learning	82.234	-56.670	25.564	-25.564	-	-	-
Adult Services	-	-	-	127.868	223.427	-95.559	127.868
Children's Services	-	-	-	94.626	156.401	-61.775	94.626
Economic and Community Infrastructure	150.926	-68.820	82.106	-2.365	124.448	-44.707	79.741
Public Health	22.355	-22.075	0.280	-	22.355	-22.075	0.280
Corporate & Support Services (inc Corporate Contingencies)	47.698	-7.966	39.732	-	47.698	-7.966	39.732
Accountable Bodies (LEP/SRA/CDS)	-	-	-	2.365	26.478	-24.113	2.365
Individual Schools Budget	229.416	-199.505	29.911	-	229.416	-199.505	29.911
Surplus (-) / Deficit on Continuing Operations	**830.223**	**-455.700**	**374.523**	-	**830.223**	**-455.700**	**374.523**
Other operating expenditure	38.410	-	38.410	-	38.410	-	38.410
Financing and investment income and expenditure	48.885	-9.303	39.582	-	48.885	-9.303	39.582
Taxation and non-specific grant income	-	-398.207	-398.207	-	-	-398.207	-398.207
Surplus (-) or Deficit on Provision of Services	**917.518**	**-863.210**	**54.308**	**-**	**917.518**	**-863.210**	**54.308**

There was no impact on any other primary statements as a result of this restatement.

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 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures

These amendments clarify that an entity applies IFRS 9 Financial Instruments including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. We do not expect these amendments to have a material impact on our accounts when they are applied from 1st April 2020.

- Annual Improvements to IFRS Standards 2015–2017 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. We do not expect any of these improvements to have a material impact on our accounts when they are applied from 1st April 2020.

- Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement.

These amendments clarify that if a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement.

This amendment does not need to be applied where its application is immaterial, and if material will only affect the amounts reported in the Comprehensive Income & Expenditure account, the Balance Sheet entries are unaffected by the amendment.

The updating of these assumptions only applies to changes from 1st April 2020 and, since this could result in positive, negative or no movement in the net pension liability, no prediction can be made of the possible accounting impact.

- IFRS16 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 rather than expense the rental charge through the Comprehensive Income and Expenditure Statement. CIPFA/LASAAC have deferred implementation of IFRS16 for local government to 1 April 2021.

An estimated impact of this standard will need to be reported in the 2020/21 Statement of Accounts, so the authority is continuing to assess the potential impact. At the time of writing, its currently not possible to estimate the likely impact as we are still in the process of identifying the lease arrangements most likely to be affected.

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:

- Where the Authority have been able to evidence that it retains the freehold interest for a school's land and building it has recognised a non-current asset under the Property, Plant and Equipment (PPE) heading on the Authority's balance sheet.

  The Authority has 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, the Authority has 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), the Authority is required to consider whether it holds 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 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 21 for further details).

- 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.

- 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. The arrangement has been accounted for as a joint operation - where each partner shows in its accounts its share of the expenditure, assets and liabilities of the Better Care Fund. 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 the transactions the Authority reports in its accounts can be found in Note 16.

- 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, 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 2019/20 where other HotSW LEP partners hold the return obligations has not been recognised in the Authority's accounts.

COVID-19 Pandemic

To limit the spread of Coronavirus (COVID-19), the UK Government took the unprecedented step to close schools, shops and other businesses as part of an extensive lockdown programme. This has had a considerable impact on local authorities, and resulted in the Authority having to make the following critical judgments:

- Having completed an extensive review of the authorities balance sheet to assess the potential COVID-19 related impact on the balance sheet as at 31st March 20, it was concluded that with the exception of the potential material estimation uncertainty surrounding property valuations; the impact of potential market volatility on the authorities net pensions liability and the potential for increased credit risk there had been no material impact as a result of the pandemic.

  The impact of COVID-19 on the authorities' property valuations; credit loss (bad debt) impairment and net pensions liability is considered further in Note 4 – Assumptions made about the future and other major sources of estimation uncertainty.

- Having reviewed the authority's contractual commitments under leasing arrangements, there were no material contracts identified where the unavoidable costs of meeting the obligations under the contract exceeded the economic benefits to be received (an onerous contract).

- During 2019/20, the Authority received £4.792m relating to S31 Business Rates Grant that was due for payment in 2020/21, to support authority cashflows. As this allocation would usually have been based on an estimate and paid 'on account' over the course of 2020/21, any over allocation would need to be repaid when the final values for 2020/21 were certified. The Authority has deemed this ability to recover unpaid sums as a right to reimbursement and have therefore carried-forward the full allocation into the 2020/21 financial year as a receipt in advance.

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 the 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 2020 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
Valuation of operational property	Asset valuations are based on market prices and are periodically reviewed to ensure that the Council does not materially misstate its non-current assets. The Council's external valuers provided valuations as at 31 March 2020 for approximately 20% of its operational portfolio. The remaining balance of operational properties were also reviewed to ensure values reflect current values. The outbreak of Covid-19 has impacted global financial markets and as at the valuation date, less weight can be attached to previous market evidence to inform opinions of value. There is an unprecedented set of circumstances on which to base a judgement, so given the potential for material valuation uncertainty on property valuations as a result of the Covid-19 pandemic, a higher degree of caution should be attached to the	A reduction in the estimated valuations would result in reductions to the Revaluation Reserve and / or a loss recorded as appropriate in the Comprehensive Income and Expenditure Statement. If the value of the Council's operational properties were to reduce by 10%, this would result in a charge to the Comprehensive Income and Expenditure Statement of up to £43m. An increase in estimated valuations would result in increases to the Revaluation Reserve and / or reversals of previous negative revaluations to the Comprehensive Income and Expenditure Statement and / or gains being recorded as appropriate in the Comprehensive Income and Expenditure Statement.

	valuation. At the current time, it is not possible to accurately predict the longevity and severity of the impact of Covid-19 on the economy. Therefore, values have been based on the situation prior to Covid-19, on the assumption that values will be restored when the real estate market becomes more fluid.	
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 £3.201 million for every year that useful lives had to be reduced.
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. Assumptions refer to market rates as at the balance sheet date. COVID-19 has caused volatility in these markets, so there is greater uncertainty on the short-term liability but given the duration of the pensions liability this is not expected to have an impact in the long term.	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 £34.381 million (see the sensitivity analysis in note 51 for other potential movements to the pensions liability as a result of changes in actuarial assumptions). Similarly, if the authorities share of pension fund assets (see note 51 for further details of the authority's asset share) was over-stated by 1%, this would result in an increase to the net pension liability of £9.463m.

Doubtful Debt Impairment	As at 31 March 2020, the Council had an outstanding balance of short-term debtors totalling £48.046m. Against this debtor balance there is an impairment allowance of £12.325m. It is not certain this impairment allowance would be sufficient as the Council cannot assess with certainty which debts will be collected or not. The economic impact of the COVID-19 pandemic has made the estimation of debt impairment more difficult as there is more uncertainty about the economic viability of debtors and their ability to settle their debts. To ease the pressure on the Authorities customers, the Authority took the decision to suspend active debt recovery from the end of March 2020 for an initial period of three months. It is believed the Authorities decision to suspend debt recovery and extend repayment terms where possible will help to mitigate any significant impact, though this is constantly reviewed. As at 31 March 2020, the Council also had an outstanding balance of long-term debtors and payment in advance totalling £20.779m. Included within this total was £14.314m relating to a long-term finance lease arrangement where the authority is acting as landlord. Having assessed the arrangement and considered past default rates; credit rating reports and customer payments received since 1 April 2020, the potential for credit loss has been estimated as immaterial, so no	An understatement of doubtful debts would lead to a future adjustment and impairment to be reflected. The impairment allowances held are based on policies adapted to historic experience and success rates experienced in collection. The nature of the debt and service area have been considered and further review has been carried out to reflect the uncertainty of the collection rates as a result of COVID-19. If collection rates were to deteriorate the Authority would need to review its policies on the calculation of its impairment allowance for doubtful debts. Any increase to the impairment allowance would reduce the balance held in the General Fund.

	additional impairment allowance has been recognised.	
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. 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 financial assets and liabilities is disclosed in note 34. Further information about the valuation techniques used in determining the fair value of the Authority's surplus assets is disclosed in note 28.	The Authority uses an investment approach based on a derived market yields to measure the fair value of some of its surplus properties. The significant unobservable inputs used in the fair value measurement include management assumptions regarding rent growth, occupancy levels, bad debt levels, tenant covenant strength, etc Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value. Some of the key variables are described further in note 34.

Britain's Departure from the European Union: Asset Values and Pensions Liability	There is still uncertainty about the implications of Britain's departure from the European Union. At the current time it is not possible to predict the agreement that will be reached at the end of the transition period. The assumption has been made that this will not significantly impair the value of the Council's assets or change the discount rate used to calculate the net pensions liability. 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 (see Pensions Liability item on previous page for more details)

Note 5: Events after the Balance Sheet Date

The Director of Finance authorised the Statement of Accounts on 30th June 2020. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2020, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

There were no non-adjusting events after the Balance Sheet date.

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.

2019/20

Expenditure & Funding Analysis for the year ended 31 March 2020	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
Adult Services	127.889	0.813	128.702	2.546	131.248
Children's Services	83.751	4.477	88.228	5.475	93.703
Economic and Community Infrastructure	62.011	-0.252	61.759	19.424	81.183
Public Health	0.261	-0.238	0.023	0.213	0.236
Corporate & Support Services (inc Corporate Contingencies)	43.285	-19.799	23.486	-0.686	22.800
Accountable Bodies (LEP/SRA/CDS)	3.936	-4.091	-0.155	0.109	-0.046
Individual Schools Budget	-	0.493	0.493	22.499	22.992
Surplus (-) / Deficit on Continuing Operations	**321.133**	**-18.597**	**302.536**	**49.580**	**352.116**
Other Income & Expenditure	-343.119	0.586	-342.533	-1.247	-343.780
Surplus (-) or Deficit on Provision of Services	**-21.986**	**-18.011**	**-39.997**	**48.333**	**8.336**
Opening General Fund Balance at 31 March 2019			61.651		
Add Surplus (-) on General Fund in Year			-39.997		
Closing General Fund Balance at 31 March 2020			**101.648**		

2018/19

Expenditure & Funding Analysis for the year ended 31 March 2019	Directorate Total as reported for resource management (Restated) £millions	Adjustment to arrive at the net amount chargeable to the General Fund balance (Restated) £millions	Net Expenditure Chargable to the General Fund (Restated) £millions	Adjustments between Funding and Accounting basis (Restated) £millions	Net Expenditure in the Comprehensive Income and Expenditure Statement (Restated) £millions
Adult Services	132.186	-9.659	122.527	5.341	127.868
Children's Services	87.403	0.768	88.171	6.455	94.626
Economic and Community Infrastructure	59.286	-0.923	58.363	21.378	79.741
Public Health	0.386	-0.250	0.136	0.144	0.280
Corporate & Support Services (inc Corporate Contingencies)	29.208	-5.889	23.319	16.413	39.732
Accountable Bodies (LEP/SRA/CDS)	2.687	-0.264	2.423	-0.058	2.365
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**		

In 2019/20, the Authority changed the way it reported some of its service headings to Cabinet. For the purposes of clear comparatives, the Expenditure & Funding Analysis for the year ended 31 March 2019 has been restated to include the new service segments reported during 2019/20.

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.

2019/20

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes £millions	Net change for the Pensions Adjustments £millions	Other Differences £millions	Total Adjustments £millions
Adult Services	0.656	1.890	-	2.546
Children's Services	2.093	3.179	0.203	5.475
Economic and Community Infrastructure	17.022	2.402	-	19.424
Public Health	0.009	0.204	-	0.213
Corporate & Support Services (inc Corporate Contingencies)	6.046	-7.577	0.845	-0.686
Accountable Bodies (LEP/SRA)	0.066	0.043	-	0.109
Individual Schools Budget	14.192	7.295	1.012	22.499
Net Cost of Services	**40.084**	**7.436**	**2.060**	**49.580**
Other Income & Expenditure				
Other operating expenditure	44.462	-	-	44.462
Financial and investment income and expenditure	-4.436	19.477	-0.123	14.918
Taxation and non-specific grant income and expenditure	-59.614	-	-1.013	-60.627
General Fund (Surplus)/Deficit	**20.496**	**26.913**	**0.924**	**48.333**

2018/19

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes (Restated) £millions	Net change for the Pensions Adjustments (Restated) £millions	Other Differences (Restated) £millions	Total Adjustments (Restated) £millions
Adult Services	3.709	1.630	0.002	5.341
Children's Services	3.136	3.366	-0.047	6.455
Economic and Community Infrastructure	19.618	1.831	-0.071	21.378
Public Health	0.010	0.134	-	0.144
Corporate & Support Services (inc Corporate Contingencies)	9.006	7.609	-0.202	16.413
Accountable Bodies (LEP/SRA/CDS)	-0.167	0.038	0.071	-0.058
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**

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:

2018/19 £ millions	Expenditure and Income	2019/20 £ millions
268.292	Employee expenses	272.267
450.694	Other service expenses	428.401
35.367	Support service recharges	35.870
82.497	Capital Charges (Depreciation/Amortisation/Impairment etc)	91.033
41.134	Interest payments (including pension interest cost)	38.843
1.142	Loan premium	-
0.799	Precepts & levies	0.812
37.593	Gain or Loss on disposal of fixed assets	43.420
917.518	**Total Expenditure**	**910.646**
-59.298	External fees & charges	-66.423
-82.558	Other service income	-75.084
-3.009	Interest and investment income	-2.869
-304.467	Income from Council Tax/ NNDR/ SRA	-329.273
-413.878	Government grants and contributions	-428.661
-863.210	**Total Income**	**-902.310**
54.308	**Surplus or deficit on the provision of services**	**8.336**

Note 8b: Revenue from Contracts with Service Recipients

Amounts included in the Comprehensive Income and Expenditure Statement for contracts with service recipients are set out in the following table. There were no material contracts during 2019/20 with performance obligations, so the income has been recognised when the goods/services have been provided by the Authority.

2018/19 (Restated) £millions		2019/20 £millions
	Continuing Operations	
-26.824	Adult Services	-33.249
-1.957	Children's Services	-2.221
-11.551	Economic & Community Infrastructure	-11.518
-0.011	Public Health	-0.005
-2.755	Corporate & Support Services (inc Corporate Contingencies)	-3.064
-0.025	Accountable Bodies (LEP/SRA/CDS)	-
-6.557	Individual Schools Budget	-5.961
	Provision of Services	
-5.425	Financial and Investment Income and Expenditure - Trading Activities	-5.731
-55.105	**Total Income**	**-61.748**

The comparative 2018/19 figure for revenue from contracts with service has been restated, as the amount reported in the published accounts last year included revenue that although income to the authority, did not meet the definition of revenue from contracts with service recipients. Amounts included in the balance sheet for contracts with service recipients are as follows:

2018/19 (Restated) £millions		2019/20 £millions
	Receivables which are included in debtors	
7.514	Adult Services	6.663
0.200	Children's Services	0.147
4.232	Economic & Community Infrastructure	3.574
0.542	Corporate & Support Services (inc Corporate Contingencies)	0.533
0.025	Accountable Bodies (LEP/SRA/CDS)	-
0.026	Individual Schools Budget	0.062
0.350	Financial and Investment Income and Expenditure - Trading Activities	0.410
12.889	**Total Receivables from Service Users**	**11.389**

There were £0.345m of credit impairment losses recognised on receivables arising from the authority’s contracts with service recipients during the year. There were no material Contract Assets or Liabilities included in the balance sheet for 2019/20 or 2018/19.

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. As the tables below are reporting the outstanding debt in line with Outturn, there has been a change in the description of some of the segments since 18/19. The total debt reported however remains unchanged.

2018/19 £million	Segmental Analysis - Outstanding Debt (Restated)	2019/20 £million
7.204	Adult Services	5.641
0.276	Children's Services	0.906
11.349	Economic and Community Infrastructure	6.045
0.012	Public Health	0.340
0.610	Corporate & Support Services (inc Corporate Contingencies)	0.720
0.041	Accountable Bodies (LEP/SRA/CDS)	-
0.050	Individual Schools Budget	0.049
0.226	Financial and Investment Income and Expenditure - Trading Activities	0.359
19.768	**Total - as reported at Outturn**	**14.060**

2018/19 £million	Reconciliation of segmental debt to the total short term debtor reported in the Balance Sheet	2019/20 £million
19.768	Segmental Debt - as reported at Outturn	14.060
	Debt - not reportable at Outturn:	
9.405	Collection Fund Debtor	15.400
4.172	Capital Debtors	-
4.947	Payments in Advance	4.002
3.290	VAT Debtor	5.517
11.678	Other year-end accrued debt	9.067
53.260	**Short-term debtor - as reported in Balance Sheet**	**48.046**

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 (segmental analysis for Revenue Contracts from Service Recipients can be found in Note 8b).

2019/20

For the year ended 31 March 2020	Income Govt Grants & Contributions £millions	Expenditure IAS19 Employee Benefit costs £millions	Capital Charges (Depreciation etc) £millions
Adult Services	-24.455	1.890	0.314
Children's Services	-56.667	3.179	2.099
Economic and Community Infrastructure	-4.890	2.402	20.371
Public Health	-20.258	0.204	0.009
Corporate & Support Services (inc Corporate Contingencies)	-3.891	-7.577	5.089
Accountable Bodies (LEP/SRA/CDS)	-41.727	0.043	40.815
Individual Schools Budget	-180.569	7.295	21.133
Total Continuing Operations	**-332.457**	**7.436**	**89.830**
Financing and Investment Income & Expenditure (including Trading)	-	19.477	0.162
Other Operating Expenditure	-	-	1.042
Taxation & Non-Specific Grant	-96.204	-	-
Total - Provision of Services	**-428.661**	**26.913**	**91.033**

2018/19

For the year ended 31 March 2019 (Restated)	Income Govt Grants & Contributions £millions	Expenditure IAS19 Employee Benefit costs £millions	Capital Charges (Depreciation etc) £millions
Adult Services	-20.356	1.631	0.768
Children's Services	-57.900	3.367	2.968
Economic and Community Infrastructure	-26.887	1.869	23.443
Public Health	-20.724	0.134	0.010
Corporate & Support Services (inc Corporate Contingencies)	-4.231	7.608	4.804
Accountable Bodies (LEP/SRA/CDS)	-0.951	-	21.315
Individual Schools Budget	-189.872	7.399	28.866
Total Continuing Operations	**-320.921**	**22.008**	**82.174**
Financing and Investment Income & Expenditure (including Trading)	-	21.736	1.429
Other Operating Expenditure	-	-	0.018
Taxation & Non-Specific Grant	-93.740	-	-
Total - Provision of Services	**-414.661**	**43.744**	**83.621**

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

2019/20

Adjustments between accounting basis and funding basis under regulations for the year ended 31 March 2020	General Fund - Schools & Other £millions	Capital Receipts Reserve £millions	Capital Grants & Contributions Unapplied £millions	Total Usable Reserves £millions	Unusable Reserves £millions	Total Authority Reserves £millions
Adjustments involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement						
Charges for depreciation/impairment and reval loss of non current assets	31.917	-	-	31.917	-31.917	-
Impairment of current held for sale assets	1.041	-	-	1.041	-1.041	-
Amortisation of intangible assets	1.206	-	-	1.206	-1.206	-
Capital grants and contributions	-59.614	-	59.614	-	-	-
Increased Icelandic Investment Impairment	0.027	-	-	0.027	-0.027	-
Revenue expenditure funded from capital under statute	7.092	-	49.775	56.867	-56.867	-
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	46.599	-	-	46.599	-46.599	-
Costs transferred to the Capital Adjustment Account under the Flexible Use of Capital receipts directive	2.163	-	-	2.163	-2.163	-
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement						
Statutory provision for the financing of capital investment	-4.547	-	-	-4.547	4.547	-
Capital expenditure charged against the General Fund	-2.138	-	-	-2.138	2.138	-
Adjustments involving the Capital Receipts Reserve:						
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-3.281	3.281	-	-	-	-
Use of the capital receipts reserve to finance new capital expenditure	-	-4.209	-	-4.209	4.209	-
Contribution from the capital receipts reserve towards administration costs of non current asset disposals	0.103	-0.103	-	-	-	-
Principal repayments transferred to the capital receipts reserve	-	0.029	-	0.029	-0.029	-
Adjustments involving the Capital Grants Unapplied Reserve:						
Use of the capital grants unapplied reserve to finance new capital expenditure	-	-	-112.371	-112.371	112.371	-
Adjustments involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	62.340	-	-	62.34	-62.340	-
Employer's pension contributions and direct payments to pensioners payable in the year	-35.427	-	-	-35.427	35.427	-

2019/20 (Continued)

Adjustments involving the Collection Fund Adjustment Account:						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	2.186	-	-	2.186	-2.186	-
Amount by which NNDR income credited to the Comprehensive Income and Expenditure Statement is different from NNDR income calculated for the year in accordance with statutory requirements	-3.199	-	-	-3.199	3.199	-
Adjustments involving the Financial Instrument Adjustment Account:						
Amount by which income and expenditure on financial instruments are charged/credited to the Comprehensive Income and Expenditure Statement is different from the amount calculated for the year in accordance with statutory requirements	-0.045	-	-	-0.045	0.045	-
Adjustments involving the Pooled Investment Funds Adjustment Account:						
Amount by which the fair value movement on pooled investment funds are charged/credited to the Comprehensive Income and Expenditure Statement is different from the amount calculated for the year in accordance with statutory requirements	0.822	-	-	0.822	-0.822	-
Adjustment involving the Accumulating Compensated Absences						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	1.088	-	-	1.088	-1.088	-
Total adjustments between accounting basis & funding basis under regulations	**48.333**	**-1.002**	**-2.982**	**44.349**	**-44.349**	**-**

2018/19

Adjustments between accounting basis and funding basis under regulations for the year ended 31 March 2019	General Fund - Schools & Other £millions	Capital Receipts Reserve £millions	Capital Grants & Contributions Unapplied £millions	Total Usable Reserves £millions	Unusable Reserves £millions	Total Authority Reserves £millions
Adjustments involving the Capital Adjustment Account:						
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</u>						
Charges for depreciation/impairment and reval loss of non current assets	46.441	0.000	0.000	46.441	-46.441	-
Impairment of current held for sale assets	1.484	0.000	0.000	1.484	-1.484	-
Amortisation of intangible assets	1.292	0.000	0.000	1.292	-1.292	-
Capital grants and contributions	-62.048	0.000	62.048	-	-	-
Reduction of Icelandic Investment Impairment	-0.046	0.000	0.000	-0.046	0.046	-
Revenue expenditure funded from capital under statute	1.525	0.000	31.737	33.262	-33.262	-
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	0.000	0.000	46.940	-46.940	-
Costs transferred to the Capital Adjustment Account under the Flexible Use of Capital receipts directive	8.600	0.000	0.000	8.600	-8.600	-
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement</u>						
Statutory provision for the financing of capital investment	-2.744	-	-	-2.744	2.744	-
Capital expenditure charged against the General Fund	-1.679	-	-	-1.679	1.679	-
Adjustments involving the Capital Receipts Reserve:						
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-11.590	11.590	-	-	-	-
Use of the capital receipts reserve to finance new capital expenditure	-	-9.009	-	-9.009	9.009	-
Contribution from the capital receipts reserve towards administration costs of non current asset disposals	0.246	-0.246	-	-	-	-
Principal repayments transferred to the capital receipts reserve	-	0.030	-	0.030	-0.030	-
Adjustments involving the Deferred Capital Receipts Reserve:						
Amounts of l/term debtors written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	1.998	-	-	1.998	-1.998	-
Adjustments involving the Capital Grants Unapplied Reserve:						
Use of the capital grants unapplied reserve to finance new capital expenditure	-	-	-95.316	-95.316	95.316	-
Adjustments involving the Pensions Reserve:				-		
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	78.863	-	-	78.863	-78.863	-
Employer's pension contributions and direct payments to pensioners payable in the year	-35.119	-	-	-35.119	35.119	-

2018/19 (Continued)

Adjustments involving the Collection Fund Adjustment Account:						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	0.553	-	-	0.553 -	0.553	-
Amount by which NNDR income credited to the Comprehensive Income and Expenditure Statement is different from NNDR income calculated for the year in accordance with statutory requirements	-0.382	-	-	-0.382	0.382	-
Adjustments involving the Financial Instrument Adjustment Account:						
Amount by which income and expenditure on financial instruments are charged/credited to the Comprehensive Income and Expenditure Statement is different from the amount calculated for the year in accordance with statutory requirements	1.096	-	-	1.096	-1.096	-
Adjustments involving the Pooled Investment Funds Adjustment Account:						
Amount by which the fair value movement on pooled investment funds are charged/credited to the Comprehensive Income and Expenditure Statement is different from the amount calculated for the year in accordance with statutory requirements	-0.150	-	- -	0.15	0.15	-
Adjustment involving the Accumulating Compensated Absences						
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	-2.216	-	-	-2.216	2.216	-
Total adjustments between accounting basis & funding basis under regulations	**73.064**	**2.365**	**-1.531**	**73.898**	**-73.898**	**-**

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 2019/20. The 2018/19 comparatives have been restated as the Dedicated Schools Grant Reserves are no longer reported as an earmarked reserve. They are now reported alongside the Schools General Fund (see Note 42 for further details).

	Balance at 31 March 2018 (Restated) £millions	Transfers Out 2018/19 (Restated) £millions	Transfers In 2018/19 (Restated) £millions	Net Movement 2018/19 (Restated) £millions	Balance at 31 March 2019 (Restated) £millions	Transfers Out 2019/20 £millions	Transfers In 2019/20 £millions	Net Movement 2019/20 £millions	Balance at 31 March 2020
General Fund:									
Operating Accounts	-0.463	-0.067	-	-0.067	-0.530	-0.447	2.216	1.769	1.239
Economic Development Fund	0.551	-0.072	-	-0.072	0.479	-0.390	0.023	-0.367	0.112
Reserves for capital purposes	2.695	-0.147	-	-0.147	2.548	-0.027	0.117	0.090	2.638
Invest to Save Fund	0.367	-0.018	-	-0.018	0.349	-0.084	0.151	0.067	0.416
LD Equalisation Reserve	-4.910	-	4.910	4.910	-	-	-	-	-
Somerset Drug & Alcohol	0.126	-	0.050	0.050	0.176	-	-	-	0.176
Public Health Earmarked	1.357	-	0.199	0.199	1.556	-	1.188	1.188	2.744
Public Health - Prevention Fund	-	-	-	-	-	- 0.206	1.000	0.794	0.794
Repairs and Maintenance Fund (inc BMIS)	-3.389	-0.073	0.526	0.453	-2.936	-	2.982	2.982	0.046
Business Rates Retention - County Wide Pot	-	-	-	-	-	- 0.032	4.015	3.983	3.983
Supply Mutual Fund Reserve	0.524	- 0.009	-	-0.009	0.515	-0.515	-	-0.515	-
Somerset and South West Mutual Scheme	-	-	-	-	-	-	0.179	0.179	0.179
BSF Bridgwater Equaliation Reserve	4.697	-	0.933	0.933	5.630	-	0.934	0.934	6.564
Futures for Somerset	0.084	-	0.030	0.030	0.114	-	0.030	0.030	0.144
Elections	0.042	-	0.253	0.253	0.295	-	0.253	0.253	0.548
Hinkley Project	0.023	-	-	-	0.023	-	-	-	0.023
Somerset Rivers Authority	0.412	-0.073	-	-0.073	0.339	-0.014	0.003	-0.011	0.328
Flood Recovery & 20 year plan	0.649	-0.483	-	-0.483	0.166	-0.031	0.016	-0.015	0.151
Total Transport Pilot Fund	0.147	-0.016	-	-0.016	0.131	-0.052	-	-0.052	0.079
Sustainable Drainage Funding	0.071	- 0.019	-	-0.019	0.052	-0.022	-	-0.022	0.030
Library renewal book fund	-	-	0.059	0.059	0.059	-0.059	-	-0.059	-
Superfast Broadband	0.055	-	-	-	0.055	-0.055	0.955	0.900	0.955
SWP - WDA	0.301	-0.100	-	-0.100	0.201	-0.181	-	-0.181	0.020
Environment Commuted Sums Reserve	1.080	0.212	-	0.212	1.292	-0.027	0.600	0.573	1.865
Local Enterprise Partnership (LEP)	2.207	-0.591	0.404	-0.187	2.020	-1.115	1.526	0.411	2.431
SRA Precept 2016/17	2.844	-	0.883	0.883	3.727	-0.323	1.783	1.460	5.187
SEN reform grant	0.181	-0.170	-	-0.170	0.011	-	-	-	0.011
SAPHTO Funds	0.007	-	0.019	0.019	0.026	-	-	-	0.026
Youth Bank	0.010	-0.010	-	-0.010	-	-	-	-	-
Children & Learning Commissioning	-	-	-	-	-	-	0.102	0.102	0.102
S106 funds	0.326	-0.043	0.188	0.145	0.471	-	0.182	0.182	0.653
Insurance Fund Reserve	3.765	-	0.321	0.321	4.086	-	1.190	1.190	5.276
Directorate Budget Carry Forwards	-7.055	-16.444	29.410	12.966	5.911	-5.911	-	-5.911	-
Parking Services	-	-	0.333	0.333	0.333	-	0.102	0.102	0.435
West Somerset Opportunities Fund reserve	-	-	1.267	1.267	1.267	-0.204	-	-0.204	1.063
WSOA Essential Life Skills reserve	-	-	0.020	0.020	0.020	-0.005	-	-0.005	0.015
Adult Social Care Reserve	-	-	2.309	2.309	2.309	-0.840	2.511	1.671	3.980
Adults & Health System Reserve	-	-	2.500	2.500	2.500	-2.500	-	-2.500	-
COVID-19 Support	-	-	-	-	-	-	15.563	15.563	15.563
Workforce Resilience	-	-	-	-	-	-	1.168	1.168	1.168
Improving Lives Programme (ILP)	-	-	-	-	-	-0.605	2.853	2.248	2.248
Corporate Priorities	-	-	-	-	-	-	5.946	5.946	5.946
Funding Volatility	-	-	-	-	-	-0.140	2.530	2.390	2.390
Total excluding School Balances	**6.704**	**-18.123**	**44.614**	**26.491**	**33.196**	**- 13.785**	**50.118**	**36.333**	**69.529**
Balances held by schools under a scheme of delegation	19.146	-17.434	15.756	-1.678	17.468	-16.075	15.692	-0.383	17.085
Total	**25.850**	**-35.557**	**60.370**	**24.813**	**50.664**	**- 29.860**	**65.810**	**35.950**	**86.614**

Note 12: Other Operating Expenditure

2018/19 £millions		2019/20 £millions
37.593	(Gain)/losses on the disposal of non-current assets	43.420
0.018	Loss on the revaluation of current assets held for sale	1.041
	Levies:	
0.683	- Environment Agencies	0.697
0.116	- Devon and Severn IFCA	0.115
38.410		**45.273**

The loss on disposal of non-current assets during 2019/20 was predominantly due to schools converting to academy status (£43.946m loss), where the full value of the asset is disposed for nil consideration. This loss 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.

2018/19 £millions		2019/20 £millions
20.562	Interest payable and similar charges	19.366
20.572	Net pensions interest cost (on the defined liability)	19.477
-3.009	Interest receivable and similar income	-2.869
1.457	Deficit from trading activities	0.450
39.582		**36.424**

Note 14: Taxation and Non-Specific Grant Income

2018/19 £millions		2019/20 £millions
-232.860	Council Tax income	-244.023
-69.100	National Non-Domestic Rates	-82.703
-2.507	Somerset Rivers Authority Precept	-2.547
-31.692	Non-ringfenced government grants	-36.590
-62.048	Capital grants and contributions	-59.614
-398.207		**-425.477**

Note 15: Surplus or deficit on revaluation of fixed assets

2018/19 £millions		2019/20 £millions
-33.872	Gains credited to the Revaluation Reserve	-13.454
20.615	Losses charged to the Revaluation Reserve	6.206
-13.257		-7.248

Note 16: Pooled Budgets

The Authority has several arrangements that meet the definition of a Pooled Budget. A pooled budget is a type of partnership arrangement whereby local authorities and NHS organisations contribute an agreed level of resource into a single pot (the 'pooled budget') that is then used to commission or deliver health and social care services. Section 75 of the NHS Act 2006 requires that one of the partners is nominated as the host of the pooled budget and this body is then responsible for the budget's overall accounts and audit.

In the following three areas, we provide the same service, and share our resources to get better value for money and service provision.

The **Integrated Community Equipment Service's** pooled budget is used to provide community equipment to Authority and Somerset CCG clients. Under the terms of this arrangement, the Authority is responsible for contracting with the equipment provider but both parties can procure the equipment they require. Unanimous consent from both parties is not required, so no joint control exists.

Income and expenditure for the year are as follows:

2018/19 £millions	Integrated Community Equipment Service (previously known as the Joint Equipment Service)	2019/20 £millions
	Income from:	
-1.496	Adults and Health Service	-1.409
-1.351	Somerset Clinical Commissioning Group (Including Continuing Healthcare Income)	-1.240
-1.663	Other Grant Income	-1.735
-4.510	Total income	-4.384
	Less the following spending:	
4.229	Equipment, delivery costs, minor work	4.353
0.098	Management and administration	0.096
4.327	Total spending	4.449
-0.183	**Overspending or underspending (-)**	**0.065**

The **Learning Disabilities Service's** pooled budget supports people with a learning disability to improve their quality of life. Under the terms of this arrangement, hosted by the Authority, the Somerset Clinical Commissioning Group makes contributions to the pooled budget which are then used to purchase Learning Disability services. Funding decisions are made by the Authority based on the eligibility criteria which is set nationally.

Income and expenditure for the year are as follows:

2018/19 £millions	**Learning Disabilities Service**	**2019/20 £millions**
	Income from:	
-58.046	Adults and Health Service	-60.626
-21.779	Somerset Clinical Commissioning Group	-23.261
	Somerset Partnership	
-6.077	Income from charges and grant income	-5.426
-85.902	Total income	-89.313
	Less the following spending:	
33.269	Residential services	29.204
32.048	Supported housing	34.146
8.936	Day services	7.449
15.768	Domiciliary Care	16.878
1.780	Community teams	1.924
91.801	Total spending	89.601
5.899	**Overspending or underspending (-)**	**0.288**

The **Carers Pooled Budget** arrangement is used to jointly commission the provision of Carers Support Services. It is a joint operation with the Authority and Somerset Clinical Commissioning Group. The Authority acts as the lead body, so recognises the full income and expenditure for the arrangement.

Income and expenditure for the year are as follows:

2018/19 £millions	**Carers**	**2019/20 £millions**
	Income from:	
-0.226	Adults and Health Service	-0.225
-0.231	Somerset Clinical Commissioning Group	-0.231
-0.457	Total income	-0.456
	Less the following spending:	
0.369	Universal Carers Support Service	0.377
0.027	Carers Support Worker Salary/Running Costs	0.021
0.048	CAMHS Carers Assessment Workers	0.047
0.444	Total spending	0.445
-0.013	**Overspending or underspending (-)**	**-0.011**

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 2019/20 through a signed agreement under Section 75 of the National Health Service Act 2006. Somerset County Council received additional funding in 2019/20 through the improved Better Care Fund, which has been pooled as part of the Section 75 agreement.

The Authority accounts for its share of the assets, liabilities, income and expenditure of the pool as determined by the pooled budget agreement.

This table shows the total actual expenditure (excluding the CCG's contribution towards the Carers Pooled Budget already included in the table above) incurred by the Better Care Fund:

2018/19 Gross Expenditure £millions	2018/19 Gross Income £millions	Better Care Fund	2019/20 Gross Expenditure £millions	2019/20 Gross Income £millions
20.405	-20.405	Somerset County Council	27.051	-27.051
36.320	-36.320	NHS Somerset Clinical Commissioning Group (CCG)	38.424	-38.424
56.725	**-56.725**	**Total**	**65.475**	**-65.475**

Any surplus or deficit generated from the arrangement is the responsibility of the respective partner to whom it is attributed and is shared in proportion to the funding. The partner authorities are responsible for managing the individual schemes for which they have lead responsibility.

Note 17: Members' Allowances

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

2018/19 £millions		2019/20 £millions
0.605	Basic Allowance	0.617
0.243	Special Responsibility Allowance	0.251
0.054	Travel and Subsistence Expenses	0.048
0.012	Payments to Co-optees	0.010
0.914		**0.926**

Note 18: Senior Officers' Remuneration

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

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

Table 1 – Staff paid more than £50,000 (shown in £5,000 bands) for the financial year ended 31 March 2020

2018/19			2019/20	
Number of employees			Number of employees	
Schools	Non-schools	Employee pay bands	Schools	Non-schools
65	41	£50,000 to £54,999	54	43
51	11	£55,000 to £59,999	59	11
16	11	£60,000 to £64,999	24	8
15	20	£65,000 to £69,999	11	16
9	2	£70,000 to £74,999	8	8
3	5	£75,000 to £79,999	6	5
1	4	£80,000 to £84,999	2	2
1	4	£85,000 to £89,999	1	2
1	3	£90,000 to £94,999		5
1	-	£95,000 to £99,999	1	1
-	1	£100,000 to £104,999	1	1
-	2	£105,000 to £109,999	-	2
-	1	£110,000 to £114,999	-	2
-	1	£115,000 to £119,999	-	-
-	1	£120,000 to £124,999	-	-
-	-	£125,000 to £129,999	-	2
-	1	£130,000 to £134,999	-	-
-	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	-	-
-	-	£160,000 to £164,999	-	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 2018/19 and 2019/20.

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 2020

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 2019/20 £	Employer's pension contributions £	Total wages and benefits including pension contributions 2019/20 £
Head of paid service:						
Patrick Flaherty	162,400	-	-	162,400	25,200	187,600
Statutory chief officers or those who report directly to the head of paid service:						
- Director of Children's Services	136,000	-	-	136,000	21,100	157,100
- Lead Commissioner Adults & Health - *Note 1*						
- Previous post holder, April 2019 to August 2019	59,900	-	-	59,900	8,200	68,100
- Current post holder, August 2019 onwards	88,600	-	-	88,600	12,200	100,800
- Director and Lead Commissioner ECI	127,000	-	-	127,000	19,700	146,700
- Director of Public Health	113,700	-	-	113,700	16,300	130,000
- Interim Finance Director - *Note 2*	176,400	-	-	176,400	-	176,400
- Director of Finance - *Note 3*	9,200	-	-	9,200	1,400	10,600
- Director of Corporate Affairs	103,000	-	-	103,000	16,000	119,000
- Director of HR & Organisational Development	92,300	-	-	92,300	14,200	106,500
- Business Change Strategic Manager - *Note 4*						
- Previous post holder, April 2019 to July 2019	25,500	-	-	25,500	3,500	29,000
- Current post holder, August 2019 onwards	48,800	-	-	48,800	6,800	55,600
Non-statutory chief officers who are directly accountable to the local authority themselves						
Monitoring Officer - *Note 5*						
- Previous post holder, April 2019 to September 2019	39,100	-	-	39,100	5,400	44,500
- Current post holder, September 2019 onwards	47,100	-	-	47,100	6,500	53,600
County Solicitor	77,400	-	-	77,400	12,000	89,400

Note 1 – There was a change in the permanent post holder to the Lead Commissioner Adults & Health. The annualised salary for this post was £0.135m.

Note 2 – The Authority appointed an Interim Director of Finance on a Consultancy for the period April 2019 to February 2020. The amount shown was the full cost for 2019/20.

Note 3 – Director of Finance appointed to permanent post with effect March 2020. The annualised salary for this post was £0.110m.

Note 4 – There was a change in the permanent post holder to the Business Change Strategic Manager. The annualised salary for this post was £0.077m

Note 5 – There was a change in the permanent post holder to the Monitoring Officer. The annualised salary for this post was £0.087m

Table 3 – 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 Children's Services	138,000	-	-	138,000	21,400	159,400
- Lead Commissioner Adults & Health	124,900			124,900	19,400	144,300
- 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 Public Health	110,600	-	-	110,600	16,000	126,600
- 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
- Director of HR & Organisational Development	89,100	-	-	89,100	13,900	103,000
- 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 July 2018. The annualised cost of the post (including employers pension) is £0.120m.

Note 2 – The position of Director of Finance and Performance was not directly employed to from July 2018 to March 2019. Instead, a consultant was 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 4 – Total number and value of exit packages for the financial year ended 31 March 2020

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	
	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19 £millions	2019/20 £millions
£0 - £20,000	48	24	141	60	189	84	1.100	0.490
£20,001 - £40,000	2	1	29	13	31	14	0.863	0.397
£40,001 - £60,000	-	-	4	4	4	4	0.207	0.209
£60,001 - £80,000	-	-	3	0	3	0	0.212	0.000
£80,001 - £100,000	-	-	5	2	5	2	0.437	0.179
£100,001 - £150,000	-	-	3	0	3	0	0.332	0.000
£150,001 - £200,000	-	-	-	1	0	1	0.000	0.181

Note 19: Termination Benefits

The Authority terminated the contracts of 105 posts in 2019/20, incurring liabilities of £1.456 million. The redundancy total includes; £1.308 million payable for 80 posts which were terminated by voluntary redundancy or early retirement. A further £0.148 million was paid for 25 posts that were given compulsory redundancy. The £1.456 million can be split between teaching and non-teaching staff as follows:

Non-teaching

Terminations of £0.833 million, were due to reductions in libraries (29), business support staff (13) and senior management within the local authority (8). The remaining terminations (31) are split across organisation wide reductions.

Teaching

The Authority terminated the contracts of 24 teachers in 2019/20, incurring liabilities of £0.244 million. These terminations can be split between compulsory redundancies (12) and other termination reasons (12).

Note 20: Fees for External Audit Services

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims, statutory inspections and to non-audit services provided by the Council's external auditors:

2018/19 £millions		2019/20 £millions
	Fees payable to Grant Thronton, appointed under the Local Audit & Accountability Act 2014	
0.077	– Main audit	0.098
0.016	– Grant claims	-
0.011	– Additional audit fees in relation to previous year	0.033
-	– Public Sector Audit Appointments Refund	-0.009
	Other non-audit services provided by Grant Thornton	
-	– Contract Reviews	0.030
0.104		**0.152**

Note 21: Dedicated Schools Grant

The Authority's expenditure on schools is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). An element of DSG is recouped by the Department to fund academy schools in the Authority's area. DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2011. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

New regulations came into force on 21 February 2020, that are applicable to local authority accounting periods beginning on 1 April 2020. As Earmarked Reserves report intentions for the succeeding financial years, allowing a forward-looking analysis of what the General Fund balance at 31 March means practically for future spending plans, these new regulations have been applied to our presentation of the DSG balance for 2019/20.

The School and Early Years Finance (England) Regulations 2020 mandate that any DSG deficit may only be funded and recovered through Department for Education (DfE) financial support and recovery arrangements, unless permission is sought from the Secretary of State for Education to fund the deficit from the authority's general resources. For 2019/20, the authority has opted to carry all its DSG deficit into 2020/21 (using Regulation 8(7)(c)).

Further details of this balance can be seen in the General Fund-Revenue section of Note 42 – Usable Reserves.

Details of the deployment of DSG receivable for 2019/20 are shown in the following table:

	Central spending £millions	Individual Schools Budget £millions	Total £millions
Final Dedicated Schools Grant for 2019/20 - before Academy Recoupment	-52.805	-330.566	-383.371
Academy figure recouped for 2019/20	-	181.057	181.057
Total Dedicated Schools Grant after Academy recoupment for 2019/20	-52.805	-149.509	-202.314
Plus: Brought Forward from 2018/19	6.702	-	6.702
Less: Carry Forward to 2020/21 agreed in advance	-	-	-
Agreed initial budgeted distribution in 2019/20	-46.103	-149.509	-195.612
In year adjustments	-	-	-
Final budgeted distribution for 2019/20	**-46.103**	**-149.509**	**-195.612**
Less actual central expenditure	57.182	-	57.182
Less Actual ISB deployed to schools	-	149.509	149.509
Plus Local Authority contribution for 2019/20	-	-	-
Carry-forward to 2020/21	**11.079**	**-**	**11.079**

Note 22: Grant Income

The Authority credited the following grants, capital contributions and capital donations to the Comprehensive Income and Expenditure Statement in 2019/20:

2018/19 £millions		2019/20 £millions
	Credited to Taxation and Non Specific Grant Income	
	Revenue Grants	
-16.082	- Revenue Support Grant	-
-0.072	- Lead Local Flood Authority Grant	-0.076
-0.134	- Inshore Fisheries Grant	-0.134
-2.475	- New Homes Bonus	-2.390
-	- COVID 19 Support Gant	-15.563
-3.753	- Business Rates Cap	-8.978
-0.514	- Rights to Free Travel	-0.611
-4.259	- Building Schools for the Future	-4.039
-0.088	- Transitional (Brexit) Grant	-0.175
-1.561	- Adult Social Care Support Grant	-4.268
-0.352	- Local Reform and Community Voices Gnt	-0.356
-2.403	- Rural Services Delivery Grant	-
-31.692		**-36.590**
	Capital Grants	
-8.143	- Standards Fund Capital Grant	-8.318
-33.048	- Department for Transport Capital Grant	-30.452
-2.796	- LEP	-8.824
-2.553	- Airband	-
-	- Dept. Housing, Communities and Local Govt.	-3.366
-	- Dept. Digital, Culture, Media & Sport (Broadband)	-0.400
-	- Highways England (Junction 25)	-1.725
-15.508	- Other capital grants / Contributions (including developer S106 income)	-6.529
-62.048		**-59.614**
-93.740	**Total**	**-96.204**
	Credited to Services	
	Revenue Grants	
-212.483	- Dedicated Schools Grant	-202.314
-6.782	- Standards Fund	-6.844
-9.493	- Pupil Premium Grant	-8.782
-0.667	- Music Education Grant	-0.675
-0.701	- LEP - Start Up Fund	-0.700
-21.010	- LEP - Growth Hub	-40.997
-0.348	- Adoption Support Grant	-0.093
-3.525	- Sixth Form Funding (S6F)	-2.176
-2.789	- Primary PE and Sports Grant	-2.546
-0.462	- Youth Justice	-0.461
-1.865	- Troubled Families	-1.226
-	- Family Safeguarding	-0.515
-1.358	- Step Up Social Work	-0.390
-0.717	- School Improvement Grant	-0.588
-0.109	- Year 7 Catch Up preimium grant	-0.093
-3.893	- Universal Infants Free School Meals	-3.591
-2.970	- Opportunity Areas	-
-0.733	- Teachers Pay Grant	-4.433
-1.294	- Children and Young People services – other grants	-1.334
-1.230	- Independent Living Fund	-1.193
-20.723	- Public Health grant	-20.176
-16.360	- Care Act *	-20.187
-2.498	- Winter Pressures Grant	-2.769
-0.002	- Adult services – other grants	-0.049
-0.212	- DEFRA - AONB & LARC	-0.278
-0.718	- Triple C Project	-0.773
-3.194	- Grant from Broadband Delivery UK	-0.911
-0.405	- Bus Service Operators Grant	-0.454
-2.580	- Building Schools for the Future contributions	-2.800
-	- West Somerset Opportunities Area Fund (WSOA)	-1.730
-	- COVID 19 Support Grant	-0.105
-0.644	- Economic, Communities & Infrstructure services - other grants	-2.176
-1.155	- Other services grants	-1.098
-320.921	**Total**	**-332.457**

Note 23: Partnerships and Related Party Transactions

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

UK Government

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

Officers

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

Members

Elected Members of the Authority have direct control over the Authority's financial and operating policies. The total of Members' allowances paid in 2019/20 is shown in Note 17. The Members' Code of Conduct requires Members to declare interests in related parties in the Register of Members' Interests. The Register is available on the Council's website and is open to public inspection at County Hall during office hours. Members were also asked to declare separately transactions with the Authority. No material transactions between the Authority and businesses in which members have a controlling interest have been identified.

A number of Members are also members of other local public bodies, including district, parish and town councils, academies and NHS trusts. No 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 2019/20 the Authority paid £30.977m to Discovery.
- Various small local companies (13 in total) that provide transport on behalf of the Authority. The total paid to these companies during 2019/20 was £3.461 million.
- Futures for Somerset, a long-term strategic partnership, is an associate of the Authority, in which the Authority has a 10% share by shareholding and influence over its long-term plans. In 2019/20 the Authority paid £0.634 million to Futures for Somerset.

Note 24: Property, Plant & Equipment

Movements in 2019/20	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 2019	458.145	45.110	712.091	5.083	22.077	1,242.506
Additions	17.981	18.655	52.063	-	19.211	107.910
Disposals	-48.232	-2.678	-	-0.225	-	-51.135
Reclassifications	9.028	0.196	-	0.306	-11.316	-1.785
Revaluation Increase/decrease (-):						
- to Revaluation Reserve	1.172	-	-	-1.900	-	-0.728
- to Surplus/Deficit on the provision of service	-2.422	-	-	-0.147	-	-2.569
At 31 March 2020	435.672	61.283	764.154	3.117	29.972	1,294.198
Depreciation and impairments						
At 1 April 2019	-13.169	-26.898	-292.342	-0.176	-0.001	-332.586
Charge for 2019/20	-8.051	-9.827	-10.304	-0.072	-	-28.254
Disposals	2.131	2.558	-	0.005	-	4.694
Reclassifications	0.029	-	-	-0.029	-	-
Revaluations	7.960	-	-	0.218	-	8.178
Impairment Losses (-)/reversals:						
- to Surplus/Deficit on the provision of service	-1.096	-	-	-	-	-1.096
At 31 March 2020	-12.196	-34.167	-302.646	-0.054	-0.001	-349.064
Balance sheet amount at 1 April 2019	**444.976**	**18.212**	**419.749**	**4.907**	**22.076**	**909.920**
Balance sheet amount at 31 March 2020	**423.476**	**27.116**	**461.508**	**3.063**	**29.971**	**945.134**
Nature of asset holding at 31 March 2020						
Owned	398.522	27.116	461.508	3.063	29.971	920.180
Finance lease	24.954	-	-	-	-	24.954
	423.476	**27.116**	**461.508**	**3.063**	**29.971**	**945.134**

None of the Authority's assets were recognised under a PFI type arrangement, during 2019/20.

Movements in 2018/19	Other Land & Buildings (Restated) £millions	Vehicles, Plant & Equipment (Restated) £millions	Infrastructure Assets (Restated) £millions	Surplus Assets (Restated) £millions	Assets Under Construction (Restated) £millions	Total (Restated) £millions
Cost or valuation						
At 1 April 2018	501.208	71.308	662.558	5.075	14.391	1,254.540
Additions	12.392	3.470	49.533	0.022	15.707	81.125
Disposals	-45.354	-29.842	-	-0.475	-	-75.671
Reclassifications	5.802	0.174	-	1.903	-8.021	-0.141
Revaluation Increase/decrease (-):						
- to Revaluation Reserve	-1.292	-	-	-0.171	-	-1.462
- to Surplus/Deficit on the provision of service	-14.612	-	-	-1.272	-	-15.885
At 31 March 2019	458.145	45.110	712.091	5.083	22.077	1,242.505
Depreciation and impairments						
At 1 April 2018	-12.717	-49.254	-282.827	-0.172	-0.001	-344.971
Charge for 2018/19	-13.549	-7.419	-9.515	-0.054	-	-30.538
Disposals	0.586	29.776	-	0.003	-	30.365
Reclassifications	0.270	-	-	-0.270	-	-
Revaluations	13.725	-	-	0.317	-	14.042
Impairment Losses (-)/reversals:						
- to Surplus/Deficit on the provision of service	-1.484	-	-	-	-	-1.484
At 31 March 2019	-13.169	-26.898	-292.342	-0.176	-0.001	-332.586
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**

The restatement are presentation adjustments between cost and depreciation and do not affect the net book value of the asset nor the balance sheet.

Capital Commitments

At 31 March 2020, the Authority anticipated investing £357.881m (£554.886m at 31 March 2019) in the construction or enhancement of Property, Plant, Equipment and Infrastructure during 2020/21 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:

- £13.138m for the new Polden Bower Special School in Bridgwater
- £10.850m for the Junction 25, M5 Improvements Scheme
- £6.057m for the Superfast Broadband Programme
- £5.465m for the new King Ina Primary School in Somerton
- £3.680m for the new iAero Centre in Yeovil
- £2.606m for the new Willowdown Primary School in Bridgwater
- £2.302m for the expansion project at Bishop's Foxes School, Taunton
- £1.718m for the new Somerset Energy Innovation Centre (Phase 3)
- £0.607m for the major refurbishment works at A Block, County Hall

Similar commitments listed at 31 March 2019 were £80.875m.

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 2020/21 (£25-£30 million in 2019/20). These payments will relate to new projects in 2020/21 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	Current Assets Held for Sale	Total
	£millions	£millions	£millions	£millions	£millions	£millions	£millions
Carried at historical cost	-	27.116	461.508	-	29.971	-	**518.595**
Valued at current value as at:							
31 March 2020	272.603	-	-	3.063	-	1.262	**276.928**
31 March 2019	69.418	-	-	-	-	-	**69.418**
31 March 2018	20.610	-	-	-	-	-	**20.610**
31 March 2017	32.093	-	-	-	-	-	**32.093**
31 March 2016	28.752	-	-	-	-	-	**28.752**
Total cost or valuation	**423.476**	**27.116**	**461.508**	**3.063**	**29.971**	**1.262**	**946.396**

Note 25: Intangible Non-Current Assets

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

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

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation charge of £1.206 million for 2019/20 was charged to the following service areas:

- £1.000 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 £0.206 million was charged to various services for use of specific IT systems.

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

2018/19 £millions		2019/20 £millions
	Balance at start of year:	
7.783	– Gross carrying amount	7.808
-3.392	– Accumulated amortisation	-4.685
4.390	**Net carrying amount at start of year**	**3.123**
	Movement in year:	
0.025	Purchases	0.022
-1.292	Amortisation for the period	-1.206
3.123	**Net carrying amount at end of year**	**1.940**

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

	Carrying amount at 31 March 2019 £millions	at 31 March 2020 £millions	Remaining Amortisation Period at 31 March 2020
HCL SAP system (Integrated finance and payroll system)	1.926	0.939	1 years
SAP system licences	0.997	0.926	13 years

Note 26: Impairment Losses

During the valuation process for 2019/20, consideration was given to the Authorities entire asset portfolio. This review identified one of the authority's assets (carried in the accounts at value in use) as being in poor condition, so an impairment of £1.096m was reported in the Children's Services line of the Comprehensive Income and Expenditure Statement. Material impairments in 2018/19 totalled £1.484m.

Note 27: Assets Held For Sale

The Authority's assets held for sale at 31/03/2020 and the movement in the year is reflected in the table shown below:

Current 2018/19 £millions		Current 2019/20 £millions
1.709	**Balance outstanding at start of year**	**0.877**
	Assets newly classified as held for sale:	
0.141	Property, plant and equipment	2.505
0.720	Revaluation gain	0.000
-0.041	Revaluation loss	-1.243
-0.018	Impairment losses	0.000
	Assets declassified as held for sale:	
	Property, plant and equipment	-0.720
-1.634	Assets sold	-0.157
0.877	**Balance outstanding at year end**	**1.262**

Note 28: Surplus Assets – Fair Value Measurement

Valuation Process for Surplus Properties

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

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

Fair Value Hierarchy

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

Fair value hierarchy of surplus assets for the year ending 31 March 2020:

	Other significant observable inputs (level 2) £millions	Significant unobservable inputs (level 3) £millions	Fair value as at 31 March 2020 £millions
Office/specific use properties	0.165	0.920	1.085
Commercial units	0.232	-	0.232
Land	0.208	1.538	1.746
	0.605	**2.458**	**3.063**

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 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**

Transfers between Levels of the Surplus Asset Fair Value Hierarchy

There was one asset whose valuation assumptions in 2019/20 led to a change in their overall observable input categorisation from that report in 2018/19.
This is explained as follows:

- Land at former Frome Youth Centre- the unobservable estimation (category 3) input of market value changed to significant observable (category 2) input of an agreed sale price.

Reconciliation of Surplus Asset Fair Value Measurements within Level 3

2019/20	01 April 2019 £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 2020 £millions
Surplus assets	4.443	-	-0.100	-1.750	-	-	-0.135	-	2.458

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 31/03/2020 £millions	Valuation technique used to measure fair value	Significant unobservable inputs	Range with (average used)	Sensitivity
Office/specific use properties	0.920	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% - 11% '(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	1.538	Value of developed land with significant hope values applied	Hope values	10% - 50% '(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 2019/20 is as follows:

- Depreciation of £0.072m has been charged to non-distributed costs within the surplus or deficit on continuing operations.
- £0.147m of revaluation loss where there was no existing revaluation reserve. This went to the relevant service within the surplus or deficit on continuing operations.
- £1.682 as a loss to the Surplus or deficit on revaluation of fixed assets within other comprehensive income.

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

Note 29: Leases

Authority as Lessee

Finance Leases
The Authority has a small number of libraries, the Museum of Somerset and Dillington House (the Authority's residential centre for professional development, adult education and the arts). We also report a small 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 2019 £millions	31 March 2020 £millions
Other Land and Buildings	25.593	24.954
	25.593	**24.954**

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 2019/20 (below) are the finance lease liability and finance costs for the BSF Bridgwater PFI scheme. Although the schools have been de-recognised from the Authority's accounts (due to control lying with the Bridgwater Education Trust) the lease rental payments are still payable and are therefore included within the total minimum lease payments. See note 30 for further details.

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

2018/19 £millions		2019/20 £millions
	Finance lease liabilities (net present value of minimum lease payments):	
0.914	- Current	1.001
41.971	- Non Current	40.970
49.217	Finance costs payable in future years	45.559
92.102	Minimum lease payments	**87.530**

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

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2019 £millions	31 March 2020 £millions	31 March 2019 £millions	31 March 2020 £millions
Not later than one year	4.949	4.971	0.914	1.001
Later than one year and not later than five years	19.799	19.882	4.618	5.060
Later than five years	67.354	62.677	37.353	35.910
	92.102	**87.530**	**42.885**	**41.971**

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 2019/20, £0.040m contingent rents were received by the Authority (£0.099m paid in 2018/19). There were no material sub-lease arrangements in place during 2019/20, for assets acquired under finance leases.

Operating Leases

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

	31 March 2019		31 March 2020	
Operating Leases	Land & Buildings £millions	Vehicles & Equipment £millions	Land & Buildings £millions	Vehicles & Equipment £millions
Not later than one year	0.566	0.359	0.513	0.280
Later than one year and not later than five years	1.929	0.354	1.571	0.913
Later than five years	2.029	0.001	2.608	0.000
	4.524	**0.714**	**4.692**	**1.193**

There were no material sub-lease arrangements in place during 2019/20 for assets acquired under operating leases.

Authority as Lessor

<u>Finance Leases</u>

The Authority has leased out a number of its elderly care home properties to Somerset Care Ltd on a finance lease with a remaining term of 81 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 96 years and the Rural Life Barn museum to the Somerset Preservation Trust with a remaining term of 73 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. 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. There is no guaranteed residual interest in of any of the Authorities' finance lease arrangements.

The gross investment is made up of the following amounts:

	31 March 2019 £millions	31 March 2020 £millions
Finance lease debtor (net present value of minimum lease payments):		
- Current	0.029	0.030
- Non Current	14.344	14.314
Unearned Finance Income	48.677	47.916
Gross investment in the lease	**63.050**	**62.260**

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 2019 £millions	31 March 2020 £millions	31 March 2019 £millions	31 March 2020 £millions
Not later than one year	0.790	0.790	0.790	0.790
Later than one year and not later than five years	3.159	3.159	3.159	3.159
Later than five years	59.101	58.311	59.101	58.311
	63.050	**62.260**	**63.050**	**62.260**

During 2019/20, the Authority reviewed the long-term lease arrangement 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 2019/20. This will be reviewed again in 2020/21, 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 2019/20, £0.087m contingent rents were receivable by the Authority (£0.064m for 2018/19).

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 2019 £millions	31 March 2020 £millions
Not later than one year	1.033	0.691
Later than one year and not later than five years	3.856	2.680
Later than five years	3.662	2.466
	8.551	**5.837**

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

Building Schools for the Future (BSF)

Building Schools for the Future (BSF) was a national Government programme to rebuild or renew every secondary school in England. The Authority, through its schools and partners, has the contractual right to occupy and use the PFI sites for the purpose of delivering education and related functions during 'core school hours' each weekday 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 24.

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	0.996	3.952	1.870	0.560	**7.378**
Within 2 - 5 years	5.036	14.755	7.481	2.242	**29.514**
Within 6 - 10 years	9.541	15.198	9.350	2.802	**36.891**
Within 11 - 15 years	15.090	9.649	9.350	2.802	**36.891**
Within 16 - 20 years	10.921	1.637	4.824	1.681	**19.063**
	41.584	**45.191**	**32.875**	**10.087**	**129.737**

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

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:

	2018/19 £millions	2019/20 £millions
Balance outstanding at start of year	43.323	42.493
Payments made during the year	-0.830	-0.909
Balance outstanding at year-end	**42.493**	**41.584**

The total estimated indexed payments under the contract amount to £179.479 million. These payments are scheduled to be funded from the following revenue streams:

	Proportion of Costs
Central Govt.Grant (PFI Credits)	82.6%
Delegated School Budgets	15.2%
SCC Contribution	2.2%
	100%

Note 31: Heritage Assets - Summary of Transactions

	2018/19 £millions	2019/20 £millions
Collections		
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 2019/20 and no charges for impairment losses or revaluation gains/losses have been recognised. There have also been no heritage assets disposed of during this period.

Note 32: Heritage Assets – Further information on the Authority's Museum and Archive Collections

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

The Authority will remain the owner of collections and other heritage assets (reported in note 31 and 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 usually 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 normally open from 10.00–17.00 Tuesday to Saturday and the Brick and Tile Museum from 10.00–16.00 on Tuesday and Thursday.
- 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.

Due to the current COVID-19 pandemic all South West Heritage Trust sites are currently closed, though many of the activities are still available online.

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.

Metalwork

The Museums Service holds a collection of 185 bronze skillets, cauldrons, posnets and mortars, of which 179 pieces comprise the Butler Collection which was acquired in 2004. This is the largest collection of English bronze cooking vessels in 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.

Fine and decorative arts

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

Numismatics

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

The Authority has only reported in its Balance Sheet the numismatic artefacts where cost information (usually purchase price) is known. For the remainder of 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* which has been produced in accordance with national guidelines and is available on the SW Heritage website.

Note 33: 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.

2018/19 £millions		2019/20 £millions
366.114	Opening Capital Financing Requirement	379.430
	Capital Investment:	
81.124	- Property, Plant and Equipment	107.910
0.025	- Intangible Assets	0.022
33.262	- Revenue Expenditure Funded from Capital Under Statute	56.867
-1.998	Reduction of capital debtors	-0.032
-0.045	Capitalised Icelandic Investment Impairment/(Reversal)	0.027
8.600	Expenditure funded under the Capital Receipts Flexibility Directive	2.163
1.096	Loan Premium (under the Capital Financing Regs (SI 2003 no.3146 as amended)	-0.045
	Sources of Finance	
-0.409	- Capital receipts	-2.046
-8.600	- Capital Receipts under the Flexibility Directive	-2.163
-95.316	- Government grants and contributions	-112.372
	- Sums set aside from revenue:	
-1.679	- Direct revenue contributions	-2.138
-2.744	- Minimum Revenue Payments	-4.547
379.430	**Closing Capital Financing Requirement**	**423.076**

2018/19 £millions		2019/20 £millions
	Explanation of movements in year	
-1.503	Increase/Decrease (-) in underlying need to borrow (supported by government financial assistance)	-2.635
14.819	Increase/Decrease (-) in underlying need to borrow (unsupported by government financial assistance)	46.281
13.316	**Increase/Decrease (-) in Capital Financing Requirement**	**43.646**

Note 34: Financial Instruments

Categories of Financial Instrument

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

31 March 2019 Non Current £millions	31 March 2019 Current £millions		31 March 2020 Non Current £millions	31 March 2020 Current £millions
		Investments		
5.000	145.509	Loans and receivables at amortised cost	-	127.346
9.883	-	Pooled Funds at fair value through profit or loss	14.077	-
14.883	**145.509**	**Total Investments**	**14.077**	**127.346**
		Debtors		
19.009	35.618	Loans and receivables at amortised cost	18.875	23.123
1.698	17.642	Debtors that are not financial instruments	1.904	24.923
20.707	**53.260**	**Total Debtors**	**20.779**	**48.046**
		Cash and cash equivalents		
-	3.526	Cash and cash equivalents at amortised cost	-	19.567
-	34.925	Cash equivalents at fair value through profit or loss	-	27.090
-	-2.884	Overdraft	-	-1.716
-	**35.567**	**Total Cash and cash equivalents**	**-**	**44.941**
		Other Assets		
914.977	8.761	Other Assets that are not financial instruments	949.008	8.772
914.977	**8.761**	**Total Other Assets**	**949.008**	**8.772**
		Borrowings		
-326.188	-11.836	Financial liabilities at amortised cost	-340.336	-13.220
-326.188	**-11.836**	**Total Borrowings**	**-340.336**	**-13.220**
		Creditors		
-0.256	-57.549	Financial liabilities at amortised cost	-0.300	-60.152
-	-16.847	Creditors that are not financial instruments	-	-22.267
-0.256	**-74.396**	**Total Creditors**	**-0.300**	**-82.419**
		Other Liabilities		
-41.972	-0.914	PFI and finance leases carried at amortised cost	-40.970	-1.001
-831.401	-71.820	Other Liabilities that are not financial instruments	-779.673	-47.471
-873.373	**-72.734**	**Total Other Liabilities**	**-820.643**	**-48.472**

Categories of Financial Assets and Financial Liabilities

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

31 March 2019 Non Current £millions	31 March 2019 Current £millions		31 March 2020 Non Current £millions	31 March 2020 Current £millions
		Financial Assets:		
24.009	181.769	Measured at amortised cost	18.875	168.320
9.883	34.925	Measured at fair value through profit or loss	14.077	27.090
33.892	**216.694**		**32.952**	**195.410**
		Financial Liabilities		
-368.416	-70.299	Measured at amortised cost	-381.606	-74.373
-368.416	**-70.299**		**-381.606**	**-74.373**

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 2019				31 March 2020		
Financial Liabilities - measured at amortised cost	Financial Assets - measured at fair value through profit or loss	Financial Assets - measured at amortised cost		Financial Liabilities - measured at amortised cost	Financial Assets - measured at fair value through profit or loss	Financial Assets - measured at amortised cost
£millions	£millions	£millions		£millions	£millions	£millions
19.420	-	-	Interest expense	19.366	-	-
1.142	-	-	Loan premium	-	-	-
20.562	**-**	**-**	**Total Expense in Surplus/Deficit on the Provision of Service**	**19.366**	**-**	**-**
-	-	-	Decrease in Fair Value	-	0.822	-
-	**-**	**-**	**Total Expense in Other Comprehensive Income & Expenditure**	**-**	**0.822**	**-**
-	-	-3.009	Interest Income	-	-	-2.869
-	-0.150	-	Increase in Fair Value	-	-	-
-	**-0.150**	**-3.009**	**Total Income in Surplus/Deficit on the Provision of Service**	**-**	**-**	**-2.869**
20.562	**-0.150**	**-3.009**	**Net (Gain)/Loss for the Year**	**19.366**	**0.822**	**-2.869**

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 2020;
- 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 (an observable Level 2 input).
- Financial assets classified as Pooled Funds are carried in the Balance Sheet at fair value, based on the market price (an observable Level 2 input).

The fair values calculated are as follows:

31 March 2019 Carrying Amount £millions	Fair value £millions		31 March 2020 Carrying Amount £millions	Fair Value £millions
		Finance asset measured at amortised cost		
0.642	0.642	- Cash and Cash Equivalents	17.851	17.851
54.627	63.170	- Debtors	41.998	48.074
150.509	150.509	- Investments (exc Pooled Fund)	127.346	127.346
		Finance asset measured at fair value through profit and loss		
9.883	9.883	- Pooled Fund Investment	14.077	14.077
34.925	34.925	- Cash Equivalents	27.090	27.090
250.586	259.129	Total Financial Assets	228.362	234.438
943.078	943.078	Other assets that are not financial instruments	984.607	984.607
1,193.664	**1,202.207**	**Total Assets**	**1,212.969**	**1,219.045**
		Financial liabilities at amortised cost		
-57.805	-57.805	Creditors	-60.452	-60.452
-7.480	-7.480	Short Term Borrowing	-7.395	-7.395
-160.272	-229.048	PWLB	-162.925	-211.525
-170.272	-260.682	Other long term loan	-183.236	-295.865
-42.886	-76.646	PFI/Finance Lease liability	-41.971	-69.975
-438.715	-631.661	Total Financial Liabilities	-455.979	-645.212
-920.068	-920.068	Other liabilities that are not financial instruments	-849.411	-849.411
-1,358.783	**-1,551.729**	**Total Liabilities**	**-1,305.390**	**-1,494.623**
-165.119	**-349.522**	**Net Assets**	**-92.421**	**-275.578**

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 10.

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 2020) 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:

2018/19 £millions		2019/20 £millions
	Investments through the Comfund for:	
2.850	– South West Councils	2.750
2.800	– Exmoor National Park	2.800
0.365	– Police Community Trust	0.465
0.095	– Police and Crime Commissioners Treasurers' Society	0.225
0.190	– Society of County Treasurers	0.200
0.100	– Society of Local Council Clerks	0.100
0.250	– Falcon Housing Trust	0.025
0.750	– Richard Huish College	0.750
0.080	– Wyvern Club	0.080
7.480		7.395
137.562	Our own short-term investments	119.567
145.042	Total temporary investments	126.962
0.467	Interest due on temporary investments	0.384
145.509	**Total short-term investments**	**127.346**
5.000	Our own long-term investments	-
9.883	CCLA Pooled Property Fund	14.077
14.883	**Total long-term investments**	**14.077**

Long-term debtors

2018/19 £millions		2019/20 £millions
	Loans to:	
0.200	Central Government (Academy loans)	0.120
0.078	Other authorities (mostly for housing)	0.065
4.386	Other organisations/individuals	4.376
14.345	Leasing arrangements with Somerset Care Ltd	14.314
	Payment in advance:	
1.698	BSF Lifecycle costs	1.904
20.707		**20.779**

Short-term borrowing

2018/19 £millions		2019/20 £millions
-7.480	Other organisations investing in the Comfund	-7.395
-7.480		**-7.395**

Long-term borrowing

2018/19 £millions		2019/20 £millions
	Loans due to be repaid:	
-0.461	within one year	-1.950
-0.470	between one and two years	-1.949
-6.168	between two and five years	-15.396
-31.050	between five and 10 years	-37.491
-288.500	after more than 10 years	-285.500
-3.895	Interest due on long-term borrowing	-3.875
-330.544		**-346.161**

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 require 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 2019/20, can be found under the reports for the County Council meeting 20 February 2019, agenda item 6, Paper B. The Treasury Management Strategy 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 (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 agency's 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	27.090	0.033
	Local Authorities		
	AA	42.000	-
	UK banks		
	AA	15.000	-
	AA-	10.000	
	A+	40.000	0.028
	A	15.000	0.009
	Overseas Banks		
	AA-	20.000	-
		169.090	**0.070**
S&P	**Money-market funds**		
	AAA	27.090	-
	Local Authorities		
	AA	42.000	0.008
	UK banks		
	AA-	25.000	0.008
	A+	30.000	0.015
	A	25.000	0.015
	Overseas Banks		
	AA-	20.000	0.006
		169.090	**0.052**
Moody's	**Money-market funds**		
	AAA	27.090	-
	Local Authorities		
	Aa2	42.000	-
	UK banks		
	Aa3	55.000	0.022
	A1	25.000	0.018
	Overseas Banks		
	Aa1	15.000	
	Aa3	5.000	0.002
		169.090	**0.042**
Investment and highest risk for 2019/20		**169.090**	**0.070**
Investment and highest risk for 2018/19		**184.925**	**0.117**

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

As the crisis relating to Covid-19 evolves, the Credit Rating Agencies continue to update the Ratings of the Banks we lend to and these revised ratings are considered as we make deposits. As a general response to the crisis we have reduced the length of time to maturity on deposits we make to Banks to 35 days, this reduces the risk of deterioration in credit quality and default during the time of the deposit.

Credit and Counterparty Risk – Trade and Lease Receivables

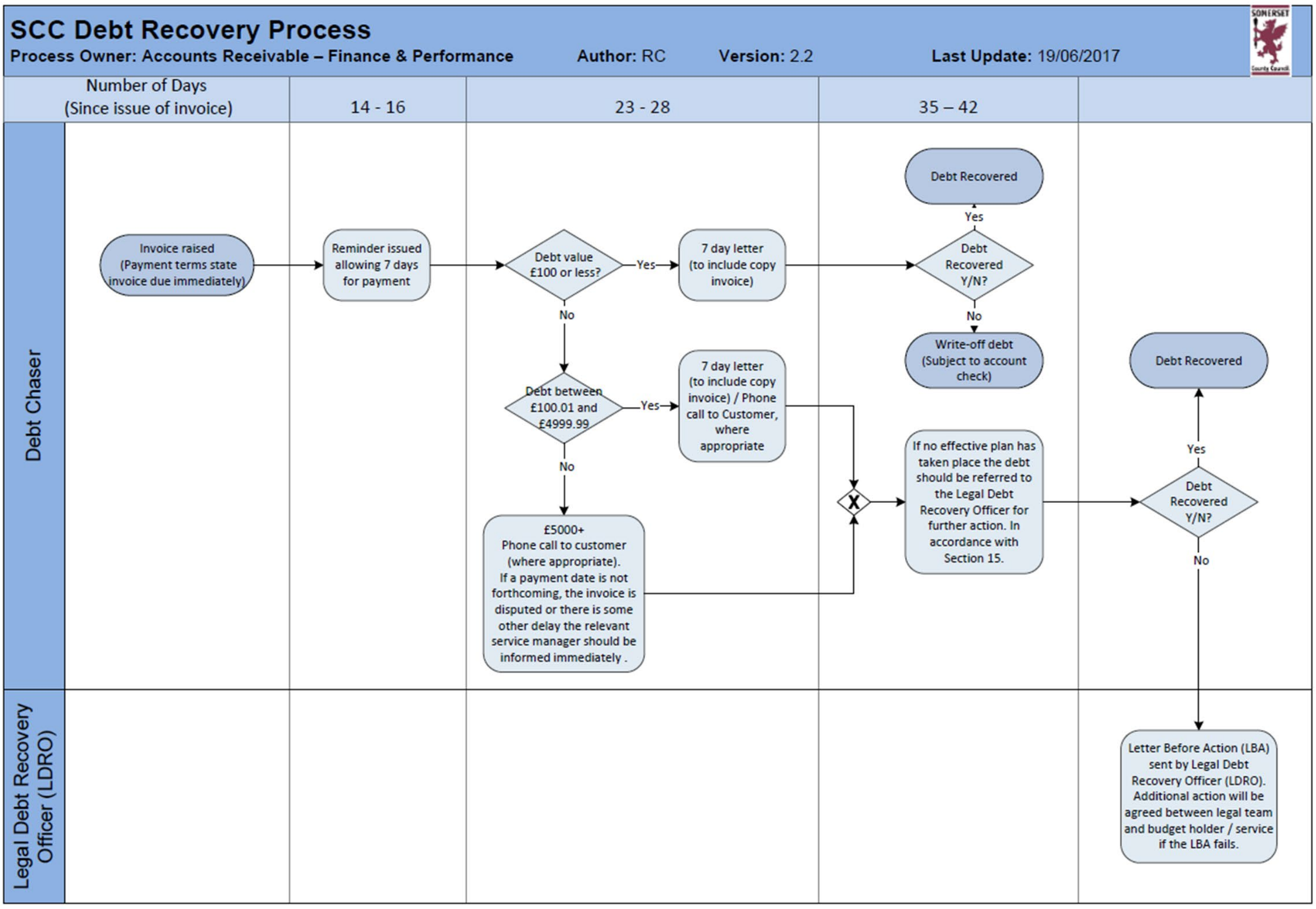
The standard position of the authority is that wherever possible payment must be obtained either prior to, or at the time of provision of goods or services and without recourse to raising invoices. If credit is to be extended, service teams ensure in advance that the customer is made aware of the Councils 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 no. 9). 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.

<u>Impact of COVID19 on debt collection and impairment</u>

To support individual residents and businesses during the COVID-19 pandemic, the Authority suspended active debt recovery for three months from the 23rd March 2020. This policy change will be reviewed once Government restrictions are eased or at the end of the three-month period whichever is earlier.

The revised process approved for debt recovery collection is as follows:

- Invoices continue to be sent on our behalf by a supplier through Royal Mail;
- The reminder is suppressed;
- The Recovery Team will continue to liaise with individual residents and companies that contact the Council to agree a longer payment plan or if in severe difficulties agree up to a three-month payment-holiday, but this will be subject to reviewing their income and expenditure.

This should provide individual residents and companies with some breathing space while ensuring that the Council can continue to collect debts wherever possible if contacted. It also takes into account that invoices are currently delivered by post and many companies are not currently working at their registered buildings to receive them.

Amounts Arising from Expected Credit Losses

During the year, the authority wrote off financial assets with a contractual amount outstanding of £0.324m (£0.081m in 2018/19), with a further £0.053m 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.

The Covid-19 crisis has not materially altered our liquidity and refinancing risk profile. We continue to hold plenty of liquid investments to meet our spending needs and the PWLB remains available for us to take new debt if required.

Market Risk – Interest Rate Risk

The Authority is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates 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% lower during 2019/20 with all other variables held constant, there would have been a reduction in interest receivable on investments of approximately £0.186m.

The Covid-19 crisis has seen interest rates fall, specifically the BoE base rate and the yields on UK Government Gilts. This doesn't materially change the level of risk in the treasury holdings to future changes in interest rates.

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 £15m. A 5% fall in commercial property prices would result in a £0.750m 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.

To date we have seen falls in the value of the CCLA pooled property fund as a result of the economic damage caused by the COVID-19 crisis and it is likely we will see further falls through the remainder of 2020. Falls to date have been less than 5%.

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 2018/19 £millions	Consumable Stores 2019/20 £millions	Musical Instruments 2018/19 £millions	Musical Instruments 2019/20 £millions	Book Stocks 2018/19 £millions	Book Stocks 2019/20 £millions	Total 2018/19 £millions	Total 2019/20 £millions
Balance outstanding at start of year	**0.250**	**0.294**	**0.863**	**0.862**	**6.492**	**6.728**	**7.605**	**7.884**
Purchases	0.759	0.270	0.000	0.006	0.588	0.580	**1.347**	**0.856**
Recognised as an expense in the year	-0.715	-0.314	-0.001	-0.013	-0.352	-0.903	**-1.068**	**-1.230**
Balance outstanding at year-end	**0.294**	**0.250**	**0.862**	**0.855**	**6.728**	**6.405**	**7.884**	**7.510**

Note 37: Short term debtors and payments in advance

2018/19 £millions		2019/20 £millions
	Money owed to us by:	
	Government Departments:	
7.902	- Central Government	7.540
23.083	- Local Government	30.207
8.438	- NHS	8.516
0.041	- Public Corporations	0.010
18.964	Other organisations/individuals	10.096
-10.115	Loss Allowance	-12.325
48.313		44.044
4.947	Payments made in advance	4.002
53.260		**48.046**

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 £19.585m in relation to Council Tax (£17.511m in 2018/19) and £2.792m for overdue Non-Domestic business rates (£0.758m in 2018/19).

The loss allowance also includes £11.980m relating to the authorities share of uncollected Council Tax and locally retained business rates (£9.828m in 2018/19).

This loss allowance has been provided by the district billing authorities and is not an allowance calculated by the authority. See the Council Tax and Business rate accounting policy no.28 for further details.

Note 38: Short term creditors

2018/19 £millions		2019/20 £millions
	Money we owe to:	
	Government Departments:	
-0.233	- Central Government	-0.924
-10.666	- Local Government	-14.688
-0.827	- NHS	-1.790
-46.334	Other organisations	-47.669
-5.901	Employees (under IAS19)	-6.990
-63.961		-72.061
-4.124	Receipts in advance	-3.464
-68.085		**-75.525**

Note 39: Other long-term liabilities

2018/19 £millions		2019/20 £millions
-41.972	Finance Lease Liability - due in more than 1 year	-40.970
-801.670	Pensions liability	-754.797
-843.642		**-795.767**

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 2019/20.

2018/19 £millions		2019/20 £millions
-4.933	Total insurance provision (excl. MMI) set aside on 1 April	-5.325
	Add:	
-2.500	- premiums received from services	-2.048
	Less:	
0.869	- insurance premiums paid	0.960
0.590	- net claims paid	2.548
0.649	- professional and administrative costs	0.608
-5.325	**Total insurance provision set aside on 31 March**	**-3.257**
	Non-Service	
-1.389	NDR Collection Fund - Provision for appeals	-2.539
	Children's Services	
-0.447	Care Leavers Grant	-0.514
	Other Services	
-	Highways Network	-1.575
-0.009	Corona Energy re. St Augustines school site	-
-0.025	Bishop Lydeard School House Delapidation	-0.010
-0.030	Monmouth House Delapidation	-
-7.225	**Total Provisions due in less than 1 year**	**-7.895**
	Municipal Mutual Insurance (MMI) Provision	
-0.256	Relating to asbestos claims paid by MMI	-0.300
-0.256	**Total Provisions due in more than 1 year**	**-0.300**

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 £3.557 million of claims not yet finally agreed (£5.581 million in 2018/19) 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 £5.276 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

2018/19 £millions		2019/20 £millions
	Capital Grant Receipts in Advance	
	Where the conditions are likely to be met within 1 year:	
-13.471	- Standards Fund (Schools Department for Education)	-13.186
-11.950	- Department for Transport	-4.531
-37.103	- Local Enterprise Partnership Capital Grant	-16.409
-0.959	- Other	-0.749
-63.483		**-34.875**
	Where the conditions are likely to be met in more than 1 year:	
-8.659	- Standards Fund (Schools Department for Education)	-1.946
-0.521	- Department for Transport	-0.265
-0.553	- Local Enterprise Partnership Capital Grant	0.000
-0.624	- Other	-0.168
-10.357		**-2.379**
	Capital Contribution Receipts in Advance (RIA)	
	Where the conditions are likely to be met within 1 year:	
-5.839	- Section 106 Contributions	-3.424
-1.069	- Other Contributions to our Capital Schemes	-0.626
-6.908		**-4.050**
	Where the conditions are likely to be met in more than 1 year:	
-8.839	- Section 106 Contributions	-10.789
-1.270	- Other Contributions to our Capital Schemes	-0.497
-10.109		**-11.286**
-70.391	Total Capital Grant/Contributions RIA's, where conditions are likely to be met within 1 year	-38.925
-20.466	Total Capital Grant/Contributions RIA's, where conditions are likely to be met in more than 1 year	-13.665
-90.857	**Total**	**-52.590**

Revenue grants

2018/19 £millions		2019/20 £millions
	Revenue Grant/Contributions Receipts in Advance	
	Where the conditions are likely to be met within 1 year:	
-0.208	- Central Government	-4.973
-	- NHS	-0.617
-1.221	- Other organisations	-2.956
-1.429		**-8.546**
	Where the conditions are likely to be met in more than 1 year:	
-	- NHS	-1.335
-9.265	- Other organisations	-9.876
-9.265		**-11.211**
-10.694		**-19.757**

Note 42: Usable Reserves

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

2018/19 (Restated) £millions		2019/20 £millions
	General Fund - Revenue	
	Schools	
17.468	General Fund - Schools	17.085
-6.702	Dedicated Schools Grant Reserve	-11.079
	Local Authority	
17.689	General Fund - Other	26.113
33.196	Earmarked Reserves - set aside for revenue purposes	69.529
61.651		101.648
	Other Usable Capital Reserves	
6.066	Capital Receipts Reserve	5.064
3.419	Capital Grants Unapplied Reserve	0.971
3.571	Capital Contributions Unapplied Reserve	3.037
13.056		9.072
74.707	**Total Usable Reserves**	**110.720**

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.

Dedicated Schools Grant Reserve

In Somerset, the High Needs budget has been under significant pressure over the last few years, overspent each year since 2017/18 resulting in a cumulative deficit of £13.959m. Planned savings in the Central Schools Services Block have offset this reducing the cumulative deficit to £11.079m.

Where a local authority has an overall deficit on DSG of 1% or more at the end of the financial year, it must submit a recovery plan to the Department for Education (DfE), setting out how it plans to bring the overall DSG account into balance within three years or a longer period if appropriate justification is provided. Somerset submitted a deficit recovery plan in June 2019 which is reviewed annually in partnership with the Somerset Schools Forum.

New regulations clarifying the correct treatment of DSG overspends, came into force on 21 February 2020 and are applicable to local authority accounting periods beginning on 1 April 2020.

As Earmarked Reserves report intentions for the succeeding financial years, allowing a forward-looking analysis of what the General Fund balance at 31 March means practically for future spending plans, these new regulations have been applied to our presentation of the DSG balance for 2019/20.

The School and Early Years Finance (England) Regulations 2020 mandate that any DSG deficit may only be funded and recovered through Department for Education (DfE) financial support and recovery arrangements, unless permission is sought from the Secretary of State for Education to fund the deficit from the authority's general resources. The Authority has applied Regulation 8(7c) and carried all its DSG overspends into the following financial year.

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

The movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement.

Note 43: Unusable Reserves

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

2018/19 £millions		2019/20 £millions
179.774	Revaluation Reserve	174.443
372.191	Capital Adjustment Account	368.215
14.373	Deferred Capital Receipts Reserve	14.344
-801.670	Pensions Reserve	-754.797
2.720	Collection Fund Adjustment Account	3.733
-5.902	Accumulated Compensated Absences Adjustment Account	-6.990
-1.096	Financial Instruments Adjustment Account	-1.051
-0.216	Pooled Investment Funds Adjustment Account	-1.038
-239.826	**Total Unusable Reserves**	**-203.141**

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.

2018/19 £millions		2019/20 £millions	2019/20 £millions
191.312	**Balance at 1 April**		**179.774**
33.873	Upward revaluation of assets	13.454	
-20.615	Revaluation/Impairment (losses) not charged to the Surplus/Deficit on the Provision of Services	-6.206	
13.258	Surplus/(Deficit) on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services		**7.248**
-7.266	Difference between fair value depreciation and historical cost dep'n	-3.642	
-17.530	Accumulated gains on asset disposals	-8.937	
-24.796	Amount written off to the Capital Adjustment Account		**-12.579**
179.774	**Balance at 31 March**		**174.443**

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.

2018/19 £millions			2019/20 £millions
376.620	**Balance at 1 April**		**372.191**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
-32.022	- Charges for depreciation and impairment of non current assets/assets held for sale	-29.294	
-15.903	- Revaluation losses on Property, Plant and Equipment	-3.665	
-1.292	- Amortisation of intangible assets	-1.206	
0.046	- Reversal/(Increase) of Icelandic impairment	-0.027	
-33.262	- Revenue expenditure funded from capital under statute	-56.867	
-8.600	- Flexible use of capital receipts	-2.163	
-46.940	- 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	-46.599	
-137.973			-139.821
24.796	Adjusting amounts written out of the Revaluation Reserve		12.579
-113.177	Net written out amount of the cost of non current assets consumed in the year		-127.242
	Capital Financing applied in the year:		
0.409	- use of the Capital Receipts Reserve to finance new capital expenditure	2.046	
95.316	- Capital grants and contributions that have been applied to capital financing	112.372	
2.744	- Statutory provision for the financing of capital investment charged against the General Fund balance	4.547	
1.679	- Capital expenditure charged against the General Fund balance	2.138	
8.600	- Flexible use of capital receipts	2.163	
108.748			123.266
372.191	**Balance at 31 March**		**368.215**

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.

2018/19 £millions		2019/20 £millions
16.402	**Balance at 1 April**	**14.373**
-0.031	Amounts transferred to the Capital Receipts Reserve during the year	-0.029
	Other movements:	
-1.998	Cancellation of finance leases	-
14.373	**Balance at 31 March**	**14.344**

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.

2018/19 £millions		2019/20 £millions
-802.463	**Balance at 1 April**	**-801.670**
44.537	Remeasurement gains / losses (-) on pension assets/liabilities	73.786
-78.863	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	-62.340
35.119	Employer's pensions contributions and direct payments to pensioners payable in the year	35.427
-801.670	**Balance at 31 March**	**-754.797**

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.

2018/19 £millions		2019/20 £millions
2.891	**Balance at 1 April**	**2.720**
-0.553	Amount by which Council Tax income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax income calculated for the year in accordance with statutory requirements	-2.186
0.382	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	3.199
2.720	**Balance at 31 March**	**3.733**

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.

2018/19 £millions		2019/20 £millions
-8.118	**Balance at 1 April**	**-5.902**
8.118	Settlement or cancellation of accrual made at the end of the preceding year	5.902
-5.902	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	-6.990
-5.902	**Balance at 31 March**	**-6.990**

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 2020 will be charged to the General Fund over the next 23 years.

2018/19 £millions		2019/20 £millions
-	**Balance at 1 April**	**-1.096**
-1.142	Premiums incurred in year and charged to the Comprehensive Income and Expenditure Statement	-
0.046	Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirments	0.045
-1.096	**Balance at 31 March**	**-1.051**

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.

2018/19 £millions		2019/20 £millions
-	**Balance at 1 April**	**-0.216**
	Adjustment for the restatement of financial instruments	
-0.366	Amounts reclassified from Available for Sale Financial Instrument Adjustment Account	-
0.150	Revaluation gains/(losses) on Pooled Investment Funds	-0.822
-0.216	**Balance at 31 March**	**-1.038**

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.

2018/19 £millions		2019/20 £millions
3.526	Net Cash in hand	4.567
34.925	Short term Investment (initial maturity term less than 3 months)	42.090
38.451	**Cash and cash equivalents sub total**	**46.657**
-2.884	Bank overdraft	-1.716
35.567	**Cash and cash equivalents at the end of the reporting period**	**44.941**

Note 45: Cash Flow Statement – Operating Activities

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

2018/19 £millions		2019/20 £millions
54.308	Net surplus(-)/deficit on the provision of services	**8.336**
-33.313	Depreciation and amortisation	-30.500
-15.903	Impairment and other non-cash adjustments	-5.248
-43.744	IAS 19 - Pension Liability	-26.913
-48.938	Carrying amount of non-current assets sold	-46.599
6.022	Movement in working capital	-15.275
-135.876		**-124.535**
105.130	Adjustment for items that are investing or financing activities	112.567
23.562		**-3.632**

The cash flows for operating activities include the following items:

2018/19 £millions		2019/20 £millions
-3.337	Interest received	-2.936
20.706	Interest paid	19.385

Note 46: Cash Flow Statement – Investing Activities

2018/19 £millions		2019/20 £millions
84.074	Purchase of property, plant and equipment, investment property and intangible assets	105.329
135.000	Purchase of short term and long term investments	127.000
0.697	Other payments for investing activities	7.569
-11.374	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	-3.207
-158.500	Proceeds from short term and long term investments	-145.000
-92.162	Other receipts from investing activities	-82.796
-42.265	**Net cash flows from investing activities**	**8.895**

Note 47: Cash Flow Statement – Financing Activities

2018/19 £millions		2019/20 £millions
-	Receipts from new long-term borrowing	-16.501
6.350	Repayments of short term and long term borrowing	0.949
0.835	Other payments for financing activities	0.915
7.185	**Net cash flows from financing activities**	**-14.637**

Note 48: Reconciliation of Liabilities Arising from Financing Activities

2019/20

	Liabilities			
	Long Term Borrowing	Short Term Borrowing	Finance Leases	PFI
Balance at 1st April 2019	-330.544	-7.480	-0.392	-42.493
Changes from financing cash flows				
New borrowings taken out	-16.501	-	-	-
Repayment of borrowings	4.759	0.085	-	-
Payment of finance lease liabilities	-	-	0.005	0.909
Total changes from financing cash flows	-11.742	0.085	0.005	0.909
Non-cash changes				
Interest accrued at year-end	-3.875	-	-	-
Balance at 31st March 2020	**-346.161**	**-7.395**	**-0.387**	**-41.584**

2018/19

	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: 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).

- There is an ongoing legal case, currently being heard in the Supreme Court, as to whether support workers (who sleep-in as part of their shift) should be paid the hourly minimum wage for the entirety of their shift rather than a flat rate for a sleep in. If the Supreme Court finds in favour of the appellant 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 2019/20.

- The Authority is subject to compensation claims in respect to land acquired with some highway network improvements. Timing of valid claims is under review and the value is not expected to be material.

- There is an outstanding employment tribunal however this is not expected to be heard until Summer 2021 onwards and the value is not expected to be material.

Note 50: Trust Funds

The Authority has not included the funds, which it manages on behalf of trusts, on its consolidated balance sheet because the money does not belong to us. As of 31 March 2020, 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:

2018/19 £millions		2019/20 £millions
-0.054	Total income	-0.054
0.073	Total spending	0.055
0.019	**(Surplus)/ Deficit**	**0.001**
0.542	Value of fund - brought forward	0.523
-0.019	Movement in year	-0.001
0.523	**Total value of the fund**	**0.522**

Note 51: Pension Schemes

Participation in Pension Schemes

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

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

- The Local Government Pension Scheme (LGPS), administered locally by the Authority, is a defined benefit statutory scheme where benefits accrued up to 31 March 2020 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 administered by Teachers' Pensions on behalf of the Department for Education. 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;

Defined Contribution Schemes:

Teachers' Pension Scheme

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

2018/19 £millions	%		2019/20 £millions	%
		Pension costs charged to the accounts		
11.290	16.48	- 1st April18 to 31st March19	-	-
-	-	- 1st April19 to 31st August19	4.390	16.48
-	-	- 1st September19 to 31st March20	8.669	23.68
11.290		**Total for the Year**	**13.059**	

There were no discretionary payments made during 2019/20.

National Employment Savings Trust

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

2018/19 £millions	%		2019/20 £millions	%
0.016	2.00	Pension costs charged to the accounts	0.026	3.00

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 2019, which set contributions for the period from 1 April 2020 to 31 March 2023. 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 2019 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 2022 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	
	2018/19 £millions	2019/20 £millions
Comprehensive Income and Expenditure Statement		
Net Cost of Services:		
- current service cost	47.625	47.255
- past service cost and gains/losses arising from settlements	10.666	-4.392
Financing and Investment Income and Expenditure:		
- net interest expense	20.572	19.477
Total Post-employment Benefit Charged to the Surplus or Deficit on the Provision of Services	**78.863**	**62.340**
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)	-26.369	85.010
- actuarial (gains) and losses arising on changes in demograpic assumptions	-103.464	4.738
- actuarial (gains) and losses arising on changes in financial assumptions	85.296	-174.060
- other actuarial (gains)/losses on plan assets	0.000	10.098
- experience (gain)/loss on defined benefit obligation	0.000	0.428
	-44.537	**-73.786**
Total Post-employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**34.326**	**-11.446**
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	**-78.863**	**-62.340**
Actual amount charged against the General Fund Balance for pensions in the year:		
- employers' contributions payable to the scheme	**35.119**	**35.427**

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		
	2017/18 £millions	2018/19 £millions	2019/20 £millions
Present value of the defined benefit obligation:			
- Funded obligation	-1,738.552	-1,789.792	-1,661.739
- Unfunded obligation	-46.498	-43.281	-39.316
	-1,785.050	-1,833.073	-1,701.055
Fair value of plan assets	982.587	1,031.403	946.258
Net liability arising from defined benefit obligation	**-802.463**	**-801.670**	**-754.797**

The net liability shows the underlying commitments that the Authority has in the long run to pay retirement benefits. The total liability of £754.797 million has a substantial impact on the net worth of the Authority as recorded in the Balance Sheet.

The total liability includes an estimate of the increased liability (based on the authorities membership profile) 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 deficit at 31 March 2020 has reduced by £46.873 million from 31 March 2019. 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:	2018/19 £millions	2019/20 £millions
Opening balance at 1 April	**982.587**	**1031.403**
Interest income	24.514	23.831
Remeasurement gain/(loss):		
- return on plan assets (excluding the amount included in the net interest expense	26.369	-85.010
Other actuarial gains/(losses)	0.000	-10.098
Employer contributions - funded	32.062	32.242
Employer contributions - unfunded	3.057	3.185
Contributions by scheme participants	11.437	9.731
Benefits paid (including unfunded)	-50.504	-56.021
Other	1.881	-3.005
Closing balance at 31 March	**1031.403**	**946.258**

The return on the Fund (on a bid value to bid value basis) for the year to 31 March 20 has been estimated at -6%. The actual return on Fund Assets over the year may be different.

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

Fair Value of Scheme Assets	**2019/20**		
	Quoted in an active market £millions	**Unquoted £millions**	**Total £millions**
Cash and cash equivalents	-	61.507	61.507
Equities:			
- UK	0.946	-	0.946
- Brunel UK equity fund	-	162.756	162.756
- Standard Life Smaller Companies Fund	-	3.785	3.785
Private Equity:			
- Private Equity	-	27.441	27.441
Overseas Equities:			
- North America	42.582	-	42.582
- Europe	1.893	-	1.893
- Japan	0.946	-	0.946
- Pacific (excluding Japan)	11.355	-	11.355
- Emerging market	0.946	-	0.946
- Brunel passive global equity fund	-	226.157	226.157
- Brunel global high alpha equity fund	-	110.712	110.712
- Brunel emerging market equity fund	-	32.173	32.173
- Nomura Japan Fund	-	15.140	15.140
	58.668	**578.164**	**636.832**
Bonds:			
- UK Fixed Interest - Public Sector	27.441	-	27.441
- UK Fixed Interest - Corporate Sector Investment Grade	41.635	-	41.635
- UK Fixed Interest - Corporate Sector High Yield	3.785	-	3.785
- Overseas - Public Sector	0.946	-	0.946
- Overseas - Corporate Sector Investment Grade	36.904	-	36.904
- Overseas - Corporate Sector High Yield	12.301	-	12.301
- Overseas - index linked - public sector	1.893	-	1.893
	124.905	**-**	**124.905**
Gilts:			
- UK Index-Linked - Public Sector	32.173	-	32.173
	32.173	**-**	**32.173**
Derivatives:			
- Forward foreign-exchange contracts	0.946	-	0.946
	0.946	**-**	**0.946**
Property:			
- UK Property Funds	-	89.895	89.895
	-	**89.895**	**89.895**
Total assets	**216.692**	**729.566**	**946.258**

Reconciliation of Present Value of the Scheme Liabilities

Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation):	2018/19	2019/20
	£millions	£millions
Opening balance at 1 April	**-1,785.050**	**-1,833.073**
Current service cost	-47.625	-47.255
Interest cost	-45.086	-43.308
Contributions by scheme participants	-11.437	-9.731
Past service costs, including curtailments	-16.010	-1.897
Settlements	3.463	9.294
Benefits paid (including unfunded)	50.504	56.021
Remeasurement gains and (losses):		
- actuarial gains/(losses) arising from changes in demographic assumptions	103.464	-4.738
- actuarial gains/(losses) arising from changes in financial assumptions	-85.296	174.060
- experience gain/(loss) on defined benefit obligation	0.000	-0.428
Closing balance at 31 March	**-1,833.073**	**-1,701.055**

There was a total of £1.897m of capitalised redundancy costs included within the Past service costs in the table above during 2019/20.

As a result of some members transferring into / out of the Authority over the year liabilities have been settled at a cost different to the accounting reserve. During 2019/20, there were 13 transfers mostly in relation to Academy schools, where £9.294m of liabilities and £3.005m of assets where transferred to the new employer, resulting in a capitalised gain to the Authority on settlements of £6.289m.

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 2022. 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 £29.785m contributions to the scheme in 2020/21.

The weighted average duration of the defined benefit obligation for scheme members is 21 years for 2019/20 (20 years in 2018/19).

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 2020, by rolling forward the value of the liabilities calculated for the Triennial valuation as at 31 March 2019 allowing for the different financial assumptions required under IAS19. A similar roll-forward approach was taken for the report as at 31 March 2019.
The principal assumptions used by the actuary have been:

2018/19		2019/20
	Mortality Assumptions:	
	Longevity (in years) at 65 for current pensioners:	
22.9	- Men	23.3
24.0	- Women	24.7
	Longevity (in years) at 65 for future pensioners:	
24.6	- Men	24.7
25.8	- Women	26.2
2.4%	Rate of Inflation (CPI)	1.9%
3.9%	Rate of increase in salaries	2.9%
2.4%	Rate of increase in pensions	1.9%
2.4%	Rate of discounting scheme liabilities	2.35%

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	1,666,674	1,701,055	1,736,179
Projected service cost	42,125	43,277	44,461
Adjustment to long term salary increase	**+0.1%**	**0.0%**	**-0.1%**
Present value of total obligation	1,703,268	1,701,055	1,698,861
Projected service cost	43,298	43,277	43,255
Adjustment to pension increases and deferred revaluation	**+0.1%**	**0.0%**	**-0.1%**
Present value of total obligation	1,734,087	1,701,055	1,668,684
Projected service cost	44,444	43,277	42,140
Adjustment to mortality age rating assumption	**+1 Year**	**None**	**-1 Year**
Present value of total obligation	1,769,525	1,701,055	1,635,390
Projected service cost	44,614	43,277	41,979

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:

2018/19 £millions	%		2019/20 £millions	%
0.179	14.38	Pension costs charged to the accounts	0.829	14.38

There were no discretionary payments made during 2019/20.

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

2018/2019 £ millions	2018/2019 £ millions		2019/2020 £ millions	2019/2020 £ millions	Notes
		Contributions and other income			
20.909		Contributions from employees	21.186		4
85.071		Contributions from employers	82.132		4
2.699		Recoveries from member organisations	3.301		4
5.672		Transfer values received	16.017		5
114.351			**122.636**		
		Less benefits and other payments			
-76.008		Recurring pensions	-81.657		4
-17.761		Lump sum on retirement	-15.654		4
-2.088		Lump sum on death	-2.515		4
-5.951		Transfer values paid	-11.386		5
-0.383		Refund of contributions to leavers	-0.304		6
-102.191			**-111.516**		
	12.160	**Net additions from dealings with members**		**11.120**	
		Management Expenses			
-1.170		Administrative expenses	-1.285		7
-6.178		Investment management expenses	-6.228		8
-0.608		Oversight and governance expenses	-0.662		9
-7.956			**-8.175**		
	4.204	**Net additions including management expenses**		**2.945**	
		Investment income			
42.212		Investment income received	29.629		10
4.714		Investment income accrued	4.173		10
-1.214		Less irrecoverable tax	-0.599		
45.712			**33.203**		
		Change in market value of investments			
286.389		Realised profit or loss	161.409		13
-215.868		Unrealised profit or loss	-321.123		13
70.521			**-159.714**		
	116.233	**Net return on investments**		**-126.511**	
	120.437	**Net increase in the net assets available for benefits during the year**		**-123.566**	

Table continued on next page

Fund Account (continued)

2018/2019 £ millions	2018/2019 £ millions		2018/2019 £ millions	2018/2019 £ millions	Notes
		Change in actuarial present value of promised retirement benefits			
-141.173		Vested benefits	197.881		14
6.887		Non-vested benefits	41.584		14
	-134.286	**Net change in present value of promised benefits**		**239.465**	
	-13.849	**Net increase/(decrease) in the fund during the**		**115.899**	
	-1,717.367	Add net liabilities at beginning of year		-1,731.216	
	-1,731.216	**Net liabilities at end of year**		**-1,615.317**	

Net Asset Statement

On 31 March 2019 £ millions		On 31 March 2020 £ millions	Notes
	Investment assets and liabilities		
2,168.578	Investment assets	2,046.977	11
-0.376	Investment liabilities	-0.271	11
4.681	Other investment balances	3.760	15
	Current assets		
5.609	Contributions due from employers	5.865	
0.489	Cash at bank	0.254	
2.657	Other debtors	1.152	
	Current liabilities		
0.000	Unpaid benefits	0.000	
0.000	Bank overdraft	0.000	
-2.262	Other creditors	-1.927	
2,179.376	**Net assets of the scheme available to fund benefits at end of year**	**2,055.810**	
	Actuarial present value of promised retirement benefits		
-3,781.050	Vested benefits	-3,583.169	14
-129.542	Non-vested benefits	-87.958	14
-1,731.216	**Net liabilities at end of year**	**-1,615.317**	

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 2019-2020 financial year were the third 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 2019/20 financial year and its financial position at 31 March 2020. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (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 at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines (2018). Investments are not publicly listed and as such there is a degree of estimation involved in the valuation. Quarterly valuation statements for private equity investments are produced a significant length of time after the quarter end, and consequently the value we use for each unit of the private equity funds in the accounts is the audited value of the private equity funds at 31 December;

- 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

2019/2020	Somerset County Council £ millions	Other scheduled employers £ millions	Admitted employers £ millions	Total £ millions
Employees' contributions				
- Normal	7.127	12.030	1.583	**20.740**
- Additional	0.198	0.226	0.022	**0.446**
Total	7.325	12.256	1.605	**21.186**
Employers' contributions				
- Normal	17.853	27.948	4.225	**50.026**
- Augmentation	0.635	1.020	0.610	**2.265**
- Deficit funding	12.806	14.295	2.740	**29.841**
Total	31.294	43.263	7.575	**82.132**
Recurring pension and lump sum payments	-47.493	-42.092	-10.241	**-99.826**
Money recovered from member organisations	1.848	1.385	0.068	**3.301**
	-7.026	**14.812**	**-0.993**	**6.793**

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**

Note 4: Contributions and benefits (continued)

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
County council			
Somerset	7.325	31.294	38.619
Police & Crime Commissioner			
Avon & Somerset	4.927	13.148	18.075
District councils			
Mendip	0.314	1.516	1.830
Sedgemoor	0.663	3.157	3.820
South Somerset	0.709	3.677	4.386
Somerset West & Taunton	1.033	5.042	6.075
Other bodies			
Avon and Somerset Magistrates Courts	0.000	1.123	1.123
Exmoor National Park	0.125	0.419	0.544

Table continued on next page

Note 4: Contributions and benefits (continued)

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
Parish and town councils			
Axbridge Town Council	0.001	0.005	0.006
Berrow Parish Council	0.001	0.004	0.005
Bishop Hull Parish Council	0.000	0.000	0.000
Burnham & Highbridge Town Council	0.017	0.057	0.074
Castle Cary Town Council	0.002	0.008	0.010
Chard Town Council	0.017	0.057	0.074
Cheddar Parish Council	0.002	0.007	0.009
Coleford Parish Council	0.001	0.002	0.003
Comeytrowe Parish Council	0.000	0.001	0.001
Creech St Michael Parish Council	0.001	0.003	0.004
Crewkerne Town Council & Burial Board	0.009	0.033	0.042
Frome Town Council	0.038	0.122	0.160
Glastonbury Town Council	0.011	0.038	0.049
Ilminster Town Council	0.005	0.018	0.023
Langport Town Council	0.002	0.007	0.009
Lower Brue Drainage Board	0.039	0.126	0.165
Minehead Town Council	0.009	0.037	0.046
Nether Stowey Parish Council	0.002	0.005	0.007
Parret Drainage Board	0.005	0.020	0.025
Shepton Mallet Town Council	0.006	0.015	0.021
Somerton Town Council	0.003	0.015	0.018
Street Parish Council	0.004	0.014	0.018
Watchet Town Council	0.002	0.006	0.008
Wellington Town Council	0.002	0.007	0.009
Wells Burial Board & Parish Council	0.022	0.063	0.085
West Coker Parish Council	0.001	0.002	0.003
Williton Parish Council	0.002	0.007	0.009
Wincanton Town Council	0.007	0.021	0.028
Yeovil Town Council	0.014	0.041	0.055

Table continued on next page

Note 4: Contributions and benefits (continued)

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
Further-education colleges			
Bridgwater College	0.752	2.404	3.156
Richard Huish Sixth Form College	0.148	0.395	0.543
Strode College	0.153	0.481	0.634
Yeovil College	0.204	0.547	0.751
Academies			
Ansford Academy	0.033	0.113	0.146
Ashill Primary Academy	0.003	0.010	0.013
Avishayes Academy	0.018	0.068	0.086
Axbridge Academy	0.013	0.048	0.061
Bath & Wells Academy Trust	0.286	1.024	1.310
Bishop Fox's Academy	0.058	0.198	0.256
Blackbrook Primary School	0.013	0.050	0.063
Brent Knoll Primary School	0.007	0.027	0.034
Bridgwater College Academy	0.134	0.428	0.562
Brookside Academy	0.059	0.214	0.273
Bruton Sexeys Academy	0.060	0.206	0.266
Brymore Academy	0.060	0.205	0.265
Buckland St. Mary Church of England School	0.003	0.013	0.016
Buckler's Mead Academy	0.055	0.171	0.226
Castle Academy	0.072	0.253	0.325
Castle Primary School	0.009	0.034	0.043
Charlton Horethorn School	0.003	0.012	0.015
Chilton Trinity Academy	0.043	0.129	0.172
Countess Gytha Primary School	0.013	0.047	0.060
Courtfields Academy	0.047	0.168	0.215
Crispin Academy	0.050	0.167	0.217

Table continued on next page

Note 4: Contributions and benefits (continued)

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
Academies (continued)			
Critchill School	0.018	0.066	0.084
Danesfield Academy	0.024	0.088	0.112
East Brent School	0.006	0.022	0.028
Enmore Academy	0.006	0.023	0.029
Hambridge Primary School	0.012	0.046	0.058
Hamp Academy	0.020	0.074	0.094
Hatch Beauchamp Primary School	0.002	0.006	0.008
Hayesdown Academy	0.016	0.059	0.075
Haygrove Academy	0.062	0.212	0.274
Hemington Primary School	0.003	0.012	0.015
Holy Trinity Church of England School	0.029	0.108	0.137
Holyrood Academy	0.065	0.239	0.304
Horrington Primary School	0.008	0.030	0.038
Hugh Sexey's School	0.030	0.109	0.139
Huish Academy	0.027	0.099	0.126
Huish Episcopi Academy	0.088	0.308	0.396
Huish Episcopi Primary Academy	0.011	0.041	0.052
King Alfred School	0.061	0.239	0.300
King Arthur's School	0.019	0.067	0.086
King Edward Road Nursery	0.011	0.037	0.048
King Ina (Monteclefe)	0.020	0.077	0.097
Kings of Wessex Academy	0.064	0.207	0.271
Kings of Wessex Leisure	0.019	0.045	0.064
Kingsmead Academy	0.059	0.207	0.266
Leigh On Mendip First School	0.007	0.025	0.032
Lympsham School	0.010	0.038	0.048

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Note 4: Contributions and benefits (continued)

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
Academies (continued)			
Maiden Beech Academy	0.026	0.091	0.117
Manor Court Primary School	0.024	0.096	0.120
Mark Academy	0.011	0.044	0.055
Mendip School	0.037	0.137	0.174
Middlezoy Primary School	0.004	0.014	0.018
Milford Junior School	0.016	0.059	0.075
Minehead First School	0.026	0.098	0.124
Minehead Middle School	0.058	0.196	0.254
Minerva Primary School	0.017	0.063	0.080
North Cadbury School	0.007	0.026	0.033
Northgate Primary School	0.016	0.057	0.073
Nunney First School	0.003	0.012	0.015
Oakfield Academy	0.038	0.136	0.174
Old Cleeve Academy	0.011	0.043	0.054
Othery Primary School	0.004	0.017	0.021
Otterhampton Primary School	0.008	0.031	0.039
Pawlett Primary School	0.004	0.010	0.014
Pen Mill Academy	0.013	0.048	0.061
Preston Academy	0.051	0.185	0.236
Preston C of E Primary School	0.049	0.166	0.215
Primrose Lane Primary School	0.014	0.051	0.065
Priorswood Academy	0.013	0.048	0.061
Puriton Primary School	0.009	0.034	0.043
Redstart Academy	0.034	0.120	0.154
Ruishton Primary School	0.014	0.055	0.069
Selwood Academy	0.034	0.121	0.155

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Note 4: Contributions and benefits (continued)

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
Academies (continued)			
Selworthy School	0.062	0.237	0.299
Spaxton Primary School	0.003	0.013	0.016
St. Dunstan’s Academy	0.016	0.059	0.075
St. Cuthbert's Academy	0.012	0.043	0.055
St. Michael's Academy	0.023	0.085	0.108
St. Michael's Church of England School	0.010	0.038	0.048
St. Peter's Academy	0.012	0.046	0.058
St Peters Nursery	0.006	0.022	0.028
Stanchester Academy	0.040	0.143	0.183
Steiner Academy, Frome	0.029	0.104	0.133
Stogursey Primary School	0.004	0.015	0.019
Tatworth Academy	0.008	0.030	0.038
Taunton Academy	0.090	0.329	0.419
The Blue School, Wells	0.102	0.320	0.422
Weare Academy	0.011	0.042	0.053
Wedmore Academy	0.022	0.067	0.089
Wellesley Park Primary School	0.019	0.071	0.090
West Monkton Primary School	0.045	0.159	0.204
West Somerset Community College	0.038	0.140	0.178
Westfield Academy	0.061	0.205	0.266
Westover Green Academy	0.036	0.139	0.175
Whitstone Academy	0.037	0.132	0.169
Willowdown Academy	0.023	0.084	0.107
Winsham Primary School	0.003	0.012	0.015
Woolavington Academy	0.014	0.051	0.065
Total other scheduled employers	12.256	43.263	55.519

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Note 4: Contributions and benefits (continued)

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
Admitted bodies			
Aster Communities Ltd	0.034	1.328	1.362
BAM FM	0.004	0.018	0.022
Capita	0.005	0.018	0.023
Churchill Contract Services	0.000	0.001	0.001
Dimensions	0.526	1.881	2.407
Edward and Ward Ltd	0.006	0.024	0.030
Glen Cleaning Company Ltd	0.002	0.008	0.010
Greenwich Leisure	0.018	0.243	0.261
Homes in Sedgemoor	0.118	0.344	0.462
Idverde Ltd	0.013	0.036	0.049
KGB South West	0.022	0.093	0.115
Learning South West	0.000	0.088	0.088
Leisure East Devon	0.013	0.025	0.038
Magna West Somerset Housing Association	0.056	0.215	0.271
Mama Bear's	0.002	0.005	0.007
May Gurney Ltd	0.019	0.000	0.019
MD Building Services	0.027	0.080	0.107
MITIE	0.003	0.013	0.016
National Autistic Society	0.009	0.065	0.074
NSL Ltd	0.021	0.000	0.021
SASP	0.008	0.017	0.025
Shared Lives South West	0.002	0.009	0.011
Society of Local Council Clerks	0.032	0.097	0.129
Somerset Care Ltd	0.027	0.390	0.417
Somerset Skills & Learning	0.073	0.183	0.256
South West Audit Partnership	0.122	0.628	0.750
South West Heritage	0.070	0.137	0.207
South West Provincial Councils	0.033	0.299	0.332
Taylor Shaw Ltd	0.000	0.047	0.047
Yarlington Housing Group	0.340	1.283	1.623
Total admitted employers	1.605	7.575	9.180
Total	**21.186**	**82.132**	**103.318**

Note 5: Transfer values

2018/2019 £ millions		2019/2020 £ millions
0.000	Group transfer values received	9.000
5.672	Individual transfer values received	7.017
5.672		**16.017**
0.000	Group transfer values paid	0.000
-5.951	Individual transfer values paid	-11.386
-5.951		**-11.386**

Note 6: Refunds

2018/2019 £ millions		2019/2020 £ millions
-0.351	Contributions refunded to members who leave service	-0.294
-0.006	Interest accumulated on refunds agreed in the past	-0.017
-0.357		**-0.311**
-0.029	Deductions from contributions equivalent premium	-0.003
0.003	Less payments to Department for Work and Pensions contributions equivalent premium	0.010
-0.383		**-0.304**

Note 7: Administrative expenses

2018/2019 £ millions		2019/2020 £ millions
0.000	Benefits administration costs charged by Somerset CC	0.000
-1.170	Benefits administration costs charged by Devon CC	-1.273
-1.170		**-1.273**
0.000	Legal advice costs charged by Somerset CC	0.000
0.000	External legal advice	-0.012
0.000		**-0.012**
0.000	Other expenses	0.000
-1.170		**-1.285**

Note 8: Investment management expenses

2018/2019 £ millions		2019/2020 £ millions
	Fund manager fees	
-0.316	LaSalle	-0.339
-1.566	Jupiter*	-1.102
-0.220	Maple-Brown Abbott*	-0.171
-0.255	Amundi	-0.135
-0.040	Somerset County Council	-0.041
-1.127	Aberdeen Standard*	-0.590
-0.821	Other fund managers	-0.855
-4.345		**-3.233**
	Other expenses	
-0.488	Transaction costs	-0.094
-0.047	Custody fees	-0.039
-0.355	Property unit trust managers' fees	-0.402
-0.890		**-0.535**
	Pooling	
-0.566	Brunel Fees	-0.979
-0.336	3rd Party Fund Manager Fees	-1.429
-0.012	Custody fees	-0.048
-0.029	Other costs	-0.004
-0.943		**-2.460**
-6.178		**-6.228**

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 2019/2020 financial year are £739,000 (£1,027,000 in 2018/2019).

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:

2018/2019 £ millions Broker comm-issions	2018/2019 £ millions Taxes and Fees	Manager	Asset Class	2019/2020 £ millions Broker comm-issions	2019/2020 £ millions Taxes and Fees
		Purchase Costs			
0.006	0.013	Somerset County Council	Passive global equity	0.001	0.002
0.031	0.241	Aberdeen Standard	UK equity	0.000	0.000
0.003	0.000	Somerset County Council	Passive US equity	0.002	0.000
0.009	0.001	Jupiter	European equity	0.005	0.007
0.000	0.000	Nomura	Japanese equity	0.000	0.000
0.019	0.004	Maple-Brown Abbott	Far East equity	0.017	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
0.068	0.259			0.025	0.013
		Sales Costs			
0.008	0.102	Somerset County Council	Passive global equity	0.002	0.001
0.022	0.000	Aberdeen Standard	UK equity	0.000	0.000
0.002	0.001	Somerset County Council	Passive US equity	0.002	0.000
0.008	0.000	Jupiter	European equity	0.007	0.000
0.000	0.000	Nomura	Japanese equity	0.000	0.000
0.013	0.005	Maple-Brown Abbott	Far East equity	0.022	0.022
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
0.053	0.108			0.033	0.023
0.121	**0.367**			**0.058**	**0.036**
	0.488				**0.094**

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

2018/2019 £ millions		2019/2020 £ millions
-0.010	Committee services costs charged by Somerset CC	-0.010
-0.224	Investments administration costs charged by Somerset CC	-0.223
-0.234		**-0.233**
-0.102	Actuary's fees	-0.177
0.051	Recharge of Actuary's fees to employers	0.067
-0.051		**-0.110**
-0.018	External audit fees	-0.027
0.000	Refund	0.002
0.000	Recharge of audit fees to employers	0.007
-0.018		**-0.018**
0.000	Internal audit costs charged by South West Audit Partnership	0.000
-0.079	Professional services and subscriptions	-0.081
-0.160	IT systems	-0.171
0.000	Performance measurement fees	0.000
0.000	External legal advice	0.000
-0.025	Voting advice fees	-0.026
-0.032	Pooling costs	-0.018
-0.009	Other expenses	-0.005
-0.608		**-0.662**

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

2018/2019 £ millions		2019/2020 £ millions
9.452	Bonds	10.448
0.475	Index linked bonds	0.473
15.389	UK equities	0.879
13.074	Overseas equities	7.760
7.207	Property unit trusts	12.942
0.990	Cash invested internally	1.163
0.000	Private equity	0.000
0.339	Stock lending	0.137
46.926		**33.802**

Note 11: Investment assets and liabilities

31 March 2019 £ millions	£ millions	%	%		31 March 2020 £ millions	£ millions	%	%
				UK equities				
1.973		0.1		Quoted	1.490		0.1	
441.543		20.4		Brunel UK equity fund	353.367		17.2	
9.499		0.4		Standard Life smaller companies fund	7.995		0.4	
	453.015		**20.9**			**362.852**		**17.7**
				Overseas equities				
135.332		6.2		North America	91.714		4.5	
156.774		7.2		Europe	4.683		0.2	
2.763		0.1		Japan	2.321		0.1	
60.138		2.8		Pacific (not including Japan)	24.466		1.2	
3.838		0.2		Emerging market	2.331		0.1	
517.100		23.9		Brunel passive global equity fund	489.305		23.9	
0.000		0.0		Brunel global high alpha equity fund	240.564		11.7	
0.000		0.0		Brunel emerging market equity fund	69.184		3.4	
63.140		2.9		Nomura Japan fund	31.933		1.6	
81.518		3.8		Amundi emerging markets fund	0.000		0.0	
	1,020.603		**47.1**			**956.501**		**46.7**
				Bonds				
50.161		2.3		UK fixed-interest - public sector	58.398		2.9	
84.912		3.9		- corporate sector investment grade	89.507		4.4	
8.921		0.4		- corporate sector high yield	7.828		0.4	
0.409		0.0		Overseas - public sector	1.193		0.1	
73.527		3.4		- corporate sector investment grade	80.741		3.9	
28.331		1.3		- corporate sector high yield	26.239		1.3	
72.760		3.4		UK index-linked - public sector	70.027		3.4	
0.772		0.0		- corporate sector	0.798		0.0	
1.870		0.1		Overseas index-linked - public sector	4.530		0.2	
	321.663		**14.8**			**339.261**		**16.6**
				Property				
184.268		8.5		UK property funds	194.042		9.5	
0.079		0.0		Overseas property funds	0.023		0.0	
	184.347		**8.5**			**194.065**		**9.5**
				Private equity				
9.900		0.5		Neuberger Berman Crossroads 2010 fund	6.219		0.3	
13.347		0.6		Neuberger Berman Crossroads XX fund	15.483		0.7	
15.409		0.7		Neuberger Berman Crossroads XXI fund	22.145		1.1	
8.857		0.4		Neuberger Berman Crossroads XXII fund	13.614		0.7	
1.640		0.1		South West regional venture fund	1.640		0.1	
0.840		0.0		Brunel	0.840		0.0	
	49.993		**2.3**			**59.941**		**2.9**

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Note 11: Investment assets and liabilities (continued)

31 March 2019					31 March 2019			
£ millions	£ millions	%	%		£ millions	£ millions	%	%
				Derivatives				
0.014		0.0		Forward foreign-exchange contracts	1.415		0.1	
0.000		0.0		Government bond futures	0.000		0.0	
0.000		0.0		Swaps	0.000		0.0	
	0.014		**0.0**			**1.415**		**0.1**
				Cash and others				
138.943		6.4		Cash invested internally	132.942		6.5	
	138.943		**6.4**			**132.942**		**6.5**
	2,168.578		**100.0**	**Investment assets**		**2,046.977**		**100.0**
				Derivatives				
-0.376		0.0		Forward foreign-exchange contracts	-0.271		0.0	
0.000		0.0		Government bond futures	0.000		0.0	
0.000		0.0		Swaps	0.000		0.0	
	-0.376		**0.0**			**-0.271**		**0.0**
	-0.376		**0.0**	**Investment liabilities**		**-0.271**		**0.0**
	2,168.202		**100.0**	**Net investment assets**		**2,046.706**		**100.0**
				Made up of				
	1,852.101			Historical cost		2,051.729		
	316.101			Unrealised profit or loss		-5.023		
	2,168.202					**2,046.706**		

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 2020 was £1,152,420,000. 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 fund investments

31 March 2019 £ millions		31 March 2020 £ millions
	Unit trusts	
122.174	UK property funds	128.341
	Unitised insurance policies	
517.100	Brunel passive global equity fund	489.305
9.499	Standard Life smaller companies fund	7.995
526.599		**497.300**
	Limited liability partnerships	
0.082	UK property funds	0.000
0.053	Overseas property funds	0.000
9.900	Neuberger Berman Crossroads 2010 fund	6.219
13.347	Neuberger Berman Crossroads XX fund	15.483
15.409	Neuberger Berman Crossroads XXI fund	22.145
8.857	Neuberger Berman Crossroads XXII fund	13.614
1.640	South West regional venture fund	1.640
49.288		**59.101**
	UK authorised contractual scheme	
441.543	Brunel UK equity fund	353.367
0.000	Brunel global high alpha equity fund	240.564
0.000	Brunel emerging market equity fund	69.184
441.543		**663.115**
	Other managed funds	
63.140	Nomura Japan fund	31.933
81.518	Amundi emerging markets fund	0.000
62.013	UK property funds	65.701
0.026	Overseas property funds	0.023
206.697		**97.657**
1,346.301	**Total**	**1,445.514**

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
2018/2019	Total	2,046.726	22.367	2,867.860	-2,839.272	286.389	-215.868	2,168.202
Somerset County Council	Global equity	32.830	0.000	4.815	-6.790	0.837	-3.140	28.552
Aberdeen Standard	UK equity	9.499	0.000	0.000	0.000	0.000	-1.504	7.995
Somerset County Council	US equity	114.684	0.000	12.935	-55.425	24.335	-23.418	73.111
Jupiter	European equity	151.282	0.000	10.170	-177.307	86.876	-71.021	0.000
Nomura	Japanese equity	63.140	0.000	0.000	-30.664	16.545	-17.088	31.933
Maple-Brown Abbott	Far East equity	62.022	0.000	11.048	-38.522	3.691	-12.897	25.342
Amundi	Emerging Market equity	81.518	0.000	62.500	-83.727	-41.273	-19.018	0.000
Aberdeen Standard	Bonds	321.663	0.000	187.224	-169.797	9.303	-9.132	339.261
Aberdeen Standard	Derivatives	-0.365	0.000	935.862	-935.450	-1.077	2.174	1.144
LaSalle	Property	184.347	0.000	24.533	-0.020	-2.305	-12.490	194.065
LaSalle	Currency	0.003	0.000	0.243	-0.243	0.000	-0.003	0.000
Neuberger Berman	Global private equity	47.513	0.000	8.991	-4.673	0.466	5.164	57.461
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	441.543	0.000	0.000	0.000	0.000	-88.176	353.367
Brunel	Pasive global equity	517.100	0.000	0.000	0.000	-0.009	-27.786	489.305
Brunel	Global high alpha equity	0.000	0.000	268.726	0.000	0.000	-28.162	240.564
Brunel	Emerging market equity	0.000	0.000	83.727	0.000	0.000	-14.543	69.184
Somerset County Council	Cash	138.943	-69.939	0.000	0.000	64.020	-0.082	132.942
2019/2020	**Total**	**2,168.202**	**-69.939**	**1,610.774**	**-1,502.618**	**161.409**	**-321.122**	**2,046.706**

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 2020 was £1,152,420,000. 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 IAS19.

To assess the value of the Fund's liabilities at 31 March 2020, the actuary has rolled forward the value of the Fund's liabilities calculated for the funding valuation as at 31 March 2019

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 2019		31 March 2020
	Financial assumptions	
3.40%	RPI increases	2.65%
2.40%	CPI increases	1.85%
3.90%	Salary increases	2.85%
2.40%	Pension increases	1.85%
2.40%	Discount Rate	2.35%
	Life expectancy (from age 65)	
22.9	Retiring today - Males	23.3
24.0	- Females	24.7
24.6	Retiring in 20 years - Males	24.7
25.8	- Females	26.2

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 0.8% below RPI. This is a reasonable estimate for the future differences in the indices, based on the different calculation methods. The difference between RPI and CPI is less than assumed at the previous accounting date. This reflects the movement in market implied RPI inflation that occurred following the UK Statistics Authority's proposal to change how RPI is calculated and subsequent announcements from the Chancellor on the issue.

Salaries are assumed to increase at 1.0% p.a. above CPI. This differs from the salary increase assumption at the previous accounting date and has been updated in line with the most recent funding valuation.

An estimate of the Fund's future cashflows is made using notional cashflows based on the estimated duration of 22 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	3,671.127	
Sensitivity to	**+0.1%**	**-0.1%**
Discount rate	3,593.274	3,750.745
Salary increase	3,677.336	3,664.974
Pension increases and deferred revaluation	3,744.851	3,598.973
Sensitivity to	**+ 1 year**	**- 1 year**
Life expectancy assumptions	3,809.165	3,538.292

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

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 estimated the impact of this at the last accounting date and therefore it is already included in the starting position. This allowance is therefore incorporated in the roll forward approach and is remeasured at the accounting date along with the normal LGPS liabilities.

2018/2019 £ millions		**2019/2020 £ millions**
107.326	Current service cost	118.814
95.425	Interest cost	93.137
192.656	Change in financial assumptions	-451.719
-222.639	Change in demographic assumptions	2.810
0.000	Experience loss/(gain) on defined benefit obligations	63.652
0.000	Liabilities assumed/(extinguished) on settlements	0.000
-96.212	Estimated benefits paid net of transfers in	-92.766
39.666	Past service costs, inculding curtailments	7.057
18.064	Contributions by scheme members	19.550
134.286		**-239.465**

Note 15: Other investment balances

31 March 2019 £ millions		31 March 2020 £ millions
	Assets	
4.714	- Accrued income	4.173
0.546	- Payments due on investments sold	1.184
0.716	- Cash collateral provided	0.945
5.976		**6.302**
	Liabilities	
-1.285	- Payments not made on purchases and losses due on sales	-2.345
-0.010	- Cash collateral held	-0.197
-1.295		**-2.542**
4.681		**3.760**

Note 16: Management structure

31 March 2019 £ millions	%	Manager	Asset class	31 March 2020 £ millions	%
32.830	2	Somerset County Council	Passive global equity	28.552	1
9.499	0	Aberdeen Standard	UK equity	7.995	0
114.684	5	Somerset County Council	Passive US equity	73.111	4
151.282	7	Jupiter	European equity	0.000	0
63.140	3	Nomura	Japanese equity	31.933	2
62.022	3	Maple-Brown Abbott	Far East equity	25.342	1
81.518	4	Amundi	Emerging market equity	0.000	0
321.298	15	Aberdeen Standard	Bonds	340.405	17
184.350	9	LaSalle	Property	194.065	9
47.513	2	Neuberger Berman	Global private equity	57.461	3
1.640	0	Technology Venture Partners	UK venture capital	1.640	0
0.840	0	Brunel	UK venture capital	0.840	0
138.943	6	Somerset County Council	Cash	132.942	7
1,209.559	**56**	**Not-pooled sub total**		**894.286**	**44**
441.543	20	Brunel	UK Equity	353.367	17
517.100	24	Brunel	Pasive global equity	489.305	24
0.000	0	Brunel	Global high alpha equity	240.564	12
0.000	0	Brunel	Emerging market equity	69.184	3
958.643	**44**	**Pooled sub total**		**1,152.420**	**56**
2,168.202	**100**	**Net investment assets**		**2,046.706**	**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 £1,152,420,000. 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.

Note 17: Classification of financial instruments

31 March 2019 £ millions Fair value through profit & loss	Assets at amortised cost	Liabilities at amortised cost		31 March 2020 £ millions Fair value through profit & loss	Assets at amortised cost	Liabilities at amortised cost
			Investment assets and liabilities			
2,168.578			Investment assets	2,046.977		
-0.376			Investment liabilities	-0.271		
	4.681		Other investment balances		3.760	
			Current assets			
	5.609		Contributions due from employers		5.865	
	0.489		Cash at bank		0.254	
	2.657		Other debtors		1.152	
			Current liabilities			
		0.000	Unpaid benefits			0.000
		0.000	Bank overdraft			0.000
		-2.262	Other creditors			-1.927
2,168.202	**13.436**	**-2.262**	**Net assets of the scheme available to fund benefits at end of year**	**2,046.706**	**11.031**	**-1.927**

Note 18: Net gains and losses on financial instruments

2018/2019 £ millions		2019/2020 £ millions
70.521	Fair value through profit and loss	-159.714
0.000	Amortised cost - realised gains (losses) on derocognition	0.000
0.000	Amortised cost - unrealised gains (losses)	0.000
70.521		**-159.714**

Note 19: Major holdings

31 March 2019 Rank	£ millions	Stock	Description	31 March 2020 Rank	£ millions	% of net investments
1	517.100	Brunel passive global equity fund	Pooled fund of developed market equities	1	489.305	23.9
2	441.543	Brunel UK equity fund	Pooled fund of UK equities	2	353.367	17.2
-	0.000	Brunel global high alpha equity fund	Pooled fund of developed market equities	3	240.564	11.7
-	0.000	Brunel emerging market equity fund	Pooled fund of emerging market equities	4	69.184	3.4
4	63.140	Nomura Japan fund	Pooled fund of Japanese equities	5	31.933	1.6
10	15.409	Neuberger Berman Crossroads XXI fund	Private equity fund	6	22.145	1.1
5	22.927	Schroders UK PUT	Pooled fund of UK property	7	22.116	1.1
6	21.539	CBRE UK Property Fund	Pooled fund of UK property	8	20.696	1.0
7	20.294	Nuveen UK Property Fund	Pooled fund of UK property	9	19.865	1.0
8	18.810	Blackrock UK PUT	Pooled fund of UK property	10	17.943	0.9
9	16.110	IPIF	Pooled fund of UK property	11	16.583	0.8
11	15.362	Nuveen Central London Office fund	Pooled fund of UK property	12	16.085	0.8
20	10.144	AEW Real Return Fund	Pooled fund of UK property	13	15.781	0.8
12	13.347	Neuberger Berman Crossroads XX fund	Private equity fund	14	15.483	0.7
-	0.000	Octopus Healthcare fund	Pooled fund of UK property	15	14.593	0.7
-	0.000	Neuberger Berman Crossroads XXII fund	Private equity fund	16	13.614	0.7
15	12.471	Lothbury	Pooled fund of UK property	17	12.366	0.6
21	10.070	UNITE UK Student Accomodation fund	Pooled fund of UK property	18	10.004	0.5
28	8.721	Hermes Property fund	Pooled fund of UK property	19	8.591	0.4
24	9.499	Standard Life smaller companies fund	Pooled fund of UK equities	20	7.995	0.4

The largest three holdings of the fund make up more than 5% of the net investment assets each. The percentage of net investment assets that each holding makes up is shown in the final column of the table above.

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, bond futures, interest rate swaps and inflation rate swaps.

The year end value of derivatives is as follows:

31 March 2019 £ millions				31 March 2020 £ millions		
Asset	Liability	Net value		Asset	Liability	Net value
			Forward foreign-exchange contracts			
0.011	-0.376	-0.365	Aberdeen Standard fixed Interest	1.415	-0.271	1.144
0.003	0.000	0.003	LaSalle	0.000	0.000	0.000
0.014	**-0.376**	**-0.362**		**1.415**	**-0.271**	**1.144**
			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**
			Swaps			
0.000	0.000	0.000	Inflation swaps	0.000	0.000	0.000
0.000	0.000	0.000	Interest rate swaps	0.000	0.000	0.000
0.000	**0.000**	**0.000**		**0.000**	**0.000**	**0.000**
0.014	**-0.376**	**-0.362**		**1.415**	**-0.271**	**1.144**

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 ceased to use forward foreign exchange contracts to hedge the foreign exchange risk of holding investments that are not valued in sterling in their property portfolio during the year.

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.

Swaps are used by Aberdeen Standard to gain exposure to various interest rates and inflation exposures with lower trading costs and better liquidity than trading bonds with similar exposures. There are significant restrictions in how Aberdeen Standard may use swaps to ensure they do not increase the overall risk of the portfolio they are managing. The swaps are over the counter trades.

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

31 March 2019 £ millions				31 March 2020 £ millions		
Asset exposure value	**Liability exposure value**	**Net value**		**Asset exposure value**	**Liability exposure value**	**Net value**
			Forward foreign-exchange contracts			
37.860	-38.225	-0.365	Aberdeen Standard fixed Interest	59.534	-58.390	1.144
0.081	-0.078	0.003	LaSalle	0.000	0.000	0.000
37.941	**-38.303**	**-0.362**		**59.534**	**-58.390**	**1.144**
			Government bond futures			
2.017	-2.017	0.000	UK gilt future	1.226	-1.226	0.000
9.634	-9.634	0.000	European bond future	0.000	0.000	0.000
0.603	-0.603	0.000	Australian bond future	0.668	-0.668	0.000
0.560	-0.560	0.000	Canadian bond future	0.250	-0.250	0.000
7.122	-7.122	0.000	US treasury future	6.904	-6.904	0.000
19.936	**-19.936**	**0.000**		**9.048**	**-9.048**	**0.000**
			Swaps			
0.000	0.000	0.000	Inflation swaps	0.212	-0.212	0.000
0.000	0.000	0.000	Interest rate swaps	0.450	-0.450	0.000
0.000	**0.000**	**0.000**		**0.662**	**-0.662**	**0.000**
57.877	**-58.239**	**-0.362**		**69.244**	**-68.100**	**1.144**

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

31 March 2019 £ millions Asset exposure value	Liability exposure value	Net value		31 March 2020 £ millions Asset exposure value	Liability exposure value	Net value
			Aberdeen Standard fixed Interest			
36.453	-1.398	35.055	GB Pound	49.702	-10.007	39.695
0.000	0.000	0.000	Australia Dollar	0.290	-2.419	-2.129
0.947	-29.402	-28.455	Euro	7.904	-37.630	-29.726
0.460	-7.425	-6.965	US Dollar	1.638	-8.334	-6.696
37.860	**-38.225**	**-0.365**		**59.534**	**-58.390**	**1.144**
			LaSalle			
0.081	0.000	0.081	GB Pound	0.000	0.000	0.000
0.000	-0.078	-0.078	Euro	0.000	0.000	0.000
0.081	**-0.078**	**0.003**		**0.000**	**0.000**	**0.000**
37.941	**-38.303**	**-0.362**		**59.534**	**-58.390**	**1.144**

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 2020 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 2019 £ millions		**31 March 2020 £ millions**
43.280	Value of stock on loan	34.058
47.620	Value of collateral held against loaned stock	35.949

31 March 2019 %		**31 March 2020 %**
	Form of collateral provided	
13.6	UK Government debt	46.5
11.0	US Government debt	10.6
24.5	Euro area Governments debt	27.1
0.0	US$ denominated corporate debt	0.0
0.0	€ denominated corporate debt	0.0
9.1	UK equities	0.3
41.8	Overseas equities	15.5
0.0	Other	0.0
100.0		**100.0**

Note 22: Membership statistics

As at 31 March	2014	2015	2016	2017	2018	2019	2020
Active scheme members	**21,057**	**22,020**	**22,649**	**21,550**	**21,151**	**20,485**	**20,877**
Pensioners							
Current (in payment)	12,460	13,871	14,779	15,421	16,322	17,326	18,289
Deferred (future liability)	17,006	17,280	20,452	22,268	25,119	26,741	26,449
Undecided leavers	3,147	3,754	2,507	3,778	2,617	2,337	1,808
Total (active plus pensioners)	**53,670**	**56,925**	**60,387**	**63,017**	**65,209**	**66,889**	**67,423**
Active members for each current pensioner	1.69	1.59	1.53	1.40	1.30	1.18	1.14

Note 23: Additional voluntary contributions

During the year some members of the fund paid additional voluntary contributions (AVCs) to Utmost Life and Pensions (formally 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 2019 £ millions		31 March 2020 £ millions
	Value of additional voluntary contributions	
4.405	Prudential	4.074
0.201	Utmost (formally Equitable Life)	0.218
4.606		**4.292**

2018/2019 £ millions		2019/2020 £ millions
	Additional voluntary contributions paid during the year	
0.396	Prudential	0.388
0.000	Utmost (formally Equitable Life)	0.000
0.396		**0.388**

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.

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.

Brunel Pension Partnership Ltd (Company number 10429110)

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 £979,000 in fees for services in the 2019-2020 financial year as disclosed in note 8. The fund paid for fees in the 2020-2021 financial year before the end of the current year and as such £203,000 is within the other debtors amount of £1,152,000 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 2020 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 2020 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	9,200	-	-	9,200	1,400	10,600
Interim Finance Director	176,400	-	-	176,400	-	176,400

The Director of Finance and Performance was appointed as a permanent post with effect from 1st March 2020. The annualised salary for this post is £110,000. Somerset County Council appointed an Interim Director of Finance on a consultancy basis for the period April 2019 to February 2020. The amount shown was the full cost for 2019/20

For comparison purposes the equivalent disclosure for the financial year ended 31 March 2019 is shown in the table below.

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.

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 2020.

Note 28: Post balance sheet events

Since 31 December 2019, the spread of the COVID-19 virus has severely impacted many local economies around the globe. In many countries, organisations are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing and closure of non-essential services, have triggered significant disruptions to organisations worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility.

The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remain unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and performance of the Fund for future periods.

The Fund has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and performance of operations as of and for the year ended 31 March 2020 have not been adjusted to reflect their impact beyond where this was already encompassed in asset prices at the year end date.

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 2020 being £2,047m.

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

The fund's assets are managed by a mixture of officers and external fund managers as described in note 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 2020 by the amounts shown below.

Asset class	Value of Assets £ millions	Volatility	Increase in Assets £ millions	Decrease in Assets £ millions
UK equities	362.852	17.90%	64.951	-64.951
Overseas equities	956.501	15.30%	146.345	-146.345
UK bonds	155.733	7.70%	11.991	-11.991
Overseas bonds	112.703	13.20%	14.877	-14.877
UK index-linked bonds	70.825	7.20%	5.099	-5.099
Property	194.065	6.20%	12.032	-12.032
Private equity*	59.941	15.30%	9.171	-9.171
Derivatives	1.144	7.50%	0.086	-0.086
Cash	132.942	0.00%	0.000	0.000
Net investment assets	**2,046.706**		**264.552**	**-264.552**

* Includes level 3 assets, further details can be found in note 30 of these accounts.

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 £10m and all counterparties must be rated at least “A-” or higher by the three major rating agencies. In this context the fund’s cash balances (including the cash held at bank or net of bank overdraft) of £133.2m is subject to credit risk.

Through its securities lending activities, the fund is exposed to the counterparty risk of the collateral provided by borrowers against the securities lent. This risk is managed by restricting the collateral permitted to high grade sovereign debt and baskets of liquid equities. 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 2020 we held £197,000 of cash collateral and £945,000 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 £450m 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 and swaps 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	Prices of the underlying property assets assessed by an independent valuer.	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

It should be noted that due to the economic uncertainty caused by the restrictions imposed by central Governments in response to the COVID-19 pandemic the independent valuers used by pooled property funds have added a material uncertainty clause to their 31 March 2020 valuations. A typical example of the wording used by valuers is provided below.

> “Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.
>
> Our valuations are therefore reported on the basis of ‘material valuation uncertainty’ as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, we recommend that you keep the valuation of these properties under frequent review.”

The table below analyses the fund’s investment assets at 31 March 2020 into the 3 levels of the fair value hierarchy.

Asset Class	**Level 1 £ millions**	**Level 2 £ millions**	**Level 3 £ millions**	**Total £ millions**
UK equities	9.485			9.485
Overseas equities	157.448			157.448
Brunel pooled equity funds		1152.420		1152.420
Bonds	339.261			339.261
Property funds		194.065		194.065
Private Equity funds			59.941	59.941
Derivatives	1.144			1.144
Cash	132.942			132.942
Net investment assets	**640.280**	**1,346.485**	**59.941**	**2,046.706**

For comparison purposes the equivalent disclosure for the financial year ended 31 March 2019 is shown in the table below.

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
Derivatives	-0.362			-0.362
Cash	138.943			138.943
Net investment assets	**975.219**	**1,142.990**	**49.993**	**2,168.202**

There have been no transfers of assets between levels within the fair value hierarchy during the financial year ended 31 March 2020.

The following table shows a reconciliation of the movement in level 3 investments during the financial year ended 31 March 2020.

Asset class	Fair Value as at 31 March 2019 £ 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	47.513	0.000	0.000	8.991	-4.673	0.466	5.164	57.461
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	**49.993**	**0.000**	**0.000**	**8.991**	**-4.673**	**0.466**	**5.164**	**59.941**

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 2020 was £1,152,420,000. 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: Accounting standards that have been issued but have not yet been adopted

Under IFRS the fund must disclose what consideration it has given to accounting standards that have not been adopted. For the 2019-20 accounts the Fund has yet to adopt the following accounting standards.

Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures

These amendments clarify that an entity applies IFRS 9 Financial Instruments including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. We do not expect these amendments to have a material impact on our accounts when they are applied from 1st April 2020.

Annual Improvements to IFRS Standards 2015–2017 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. We do not expect any of these improvements to have a material impact on our accounts when they are applied from 1st April 2020.

Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement.

These amendments clarify that if a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement.

This amendment does not need to be applied where its application is immaterial, and if material will only affect the amounts reported in the Comprehensive Income & Expenditure account, the Balance Sheet entries are unaffected by the amendment.

The updating of these assumptions only applies to changes from 1st April 2020 and, since this could result in positive, negative or no movement in the net pension liability, no prediction can be made of the possible accounting impact.

IFRS16 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 rather than expense the rental charge through the Comprehensive Income and Expenditure Statement. CIPFA/LASAAC have deferred implementation of IFRS16 for local government to 1 April 2021.

We do not expect these amendments to have a material impact on our accounts when they are applied from 1st April 2021.

J. C. Vaughan

Jason Vaughan
Director of Finance and Performance
24 September 2020

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.

COVID-19
An infectious disease that was declared a pandemic on 30 January 2020 by the World Health Organisation.

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:

Paul Griffin CPFA
Service Manager – Chief Accountant
County Hall
Taunton
Somerset
TA1 4DY.

Phone:	01823 359574
E-mail:	pxgriffin@somerset.gov.uk

These accounts are also available on the internet at https://www.somerset.gov.uk/how-the-council-works/budgets-and-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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